

DEPARTMENT OF THE TREASURY**Fiscal Service****31 CFR Part 356****Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (Department of the Treasury Circular, Public Debt Series No. 1-93)**

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

ACTION: Proposed rule.

SUMMARY: The Department of the Treasury ("Department" or "Treasury") is proposing for comment an amendment to 31 CFR Part 356 (Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds). This proposed amendment makes changes necessary to accommodate the public offering of new Treasury inflation-protection securities by the Department. In addition, the proposed amendment makes certain technical clarifications and conforming changes.

DATES: Comments must be received on or before October 28, 1996.

ADDRESSES: This proposed rule has 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>. Written comments should be sent to: Government Securities Regulations Staff, Bureau of the Public Debt, 999 E Street N.W., Room 515, Washington, D.C. 20239-0001. Comments may also be sent through the Internet to the Government Securities Regulations Staff at commoffc@bpd.treas.gov. When sending comments by the Internet, please use an ASCII file format and provide your full name and mailing address. Comments received will be available for public inspection and downloading on the Internet and for public inspection and copying at the Treasury Department Library, Room 5030, Main Treasury Building, 1500 Pennsylvania Avenue, N.W., Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: Ken Papaj (Director), Lee Grandy, Chuck Andreatta or Kurt Eidemiller (Government Securities Specialists), Bureau of the Public Debt, Government Securities Regulations Staff, (202) 219-3632.

SUPPLEMENTARY INFORMATION:**I. Background**

31 CFR Part 356, also referred to as the uniform offering circular, sets out

the terms and conditions for the sale and issuance by the Department of the Treasury to the public of marketable Treasury bills, notes, and bonds. The uniform offering circular, in conjunction with offering announcements, represents a comprehensive statement of those terms and conditions.¹

The Department has decided to offer a new type of security, referred to as a Treasury inflation-protection security,² whose principal value will be adjusted for inflation as measured by the United States Government. The Department believes the issuance of these new inflation-protection securities will reduce interest costs to the Treasury over the long term and will broaden the types of debt instruments available to investors in U.S. financial markets.

A. Summary

As explained in more detail below, after considering the comments provided, Treasury has made the following decisions concerning its offering of inflation-protection securities with the goal of achieving the broadest market appeal. The inflation-protection securities will be structured, with some modifications, based on the model of the Real Return Bonds currently issued by the Government of Canada. The principal of the security will be adjusted for changes in the level of inflation. Semiannual interest payments will be made based on a constant rate of interest determined at auction. The index for measuring the inflation rate for the inflation-protection securities will be the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor.

Further, the Department has decided to begin auctioning 10-year inflation-protection notes in January 1997 and quarterly thereafter. Specific terms and conditions of each issue will be announced prior to each auction. Additional maturities, such as 30-year bonds or 2 to 5-year notes, are expected to be auctioned later in 1997.

The principal value of the securities will be adjusted semiannually for

¹ The uniform offering circular was published as a final rule on January 5, 1993 (58 FR 412). Amendments to the circular were published on June 3, 1994 (59 FR 28773), March 15, 1995 (60 FR 13906), July 16, 1996 (61 FR 37007), and August 23, 1996 (61 FR 43626).

² This Part is being revised to accommodate offerings of both inflation-protection notes and inflation-protection bonds in order to give the Department the flexibility to issue both types of inflation-protection securities in the future. However, the Department initially plans to offer only one maturity for inflation-protection securities.

inflation by multiplying the stated value at issuance, or par amount, by an index ratio. The index ratio is the reference CPI applicable to a particular valuation day divided by the reference CPI applicable to the original issue date. The inflation adjustment will not be payable until maturity, when the securities will be redeemed at their inflation-adjusted principal amount. The securities will be issued with a stated rate of interest that remains constant until maturity. Interest payments for a particular security will be determined by multiplying the inflation-adjusted principal by one half of the stated rate of interest on each semiannual interest payment date.

Inflation-protection notes will be issued with maturities of at least one year but no more than ten years. Inflation-protection bonds will be issued with maturities of more than ten years. The inflation-protection securities will be sold at discount, par, or premium and will pay interest semiannually. The auctions for inflation-protection securities will be conducted as single-price auctions in which competitive bidders will bid in terms of a desired real yield (yield prior to inflation adjustment), expressed as a percentage with three decimals, e.g., 3.630%. The interest rate established as a result of the auction will be set at one-eighth of one percent increments that produce the price closest to, but not above, par when evaluated at the highest real yield at which bids were accepted. The offering announcement issued by the Department for each new inflation-protection security offering will contain the specific details for that offering.

The inflation-protection securities will be eligible for STRIPS (Separate Trading of Registered Interest and Principal of Securities) immediately upon their issuance by the Treasury. The securities, and their related stripped components, will also be eligible to serve as collateral for Treasury Tax and Loan, Circular 176, and Circular 154 accounts. Anyone interested in the use of inflation-protection securities, and their related stripped components, for such collateral purposes should refer to the relevant Financial Management Service circulars for more information.

B. Participation in Rulemaking Process/Solicitation of Comments

The Department believes that extensive discussion about, and participant involvement in, the design of the inflation-protection security is critical and will result in a new investment product that will have wider acceptance and broader market appeal.

In developing the structure and design features of the inflation-protection security, the Department used a wide variety of approaches to obtain the views of potential investors and market participants. It issued an Advance Notice of Proposed Rulemaking (ANPR) on May 20, 1996.³ The ANPR stated the Department's intention to issue a new type of marketable book-entry security with a nominal return linked to the inflation rate, addressed several approaches and issues to be considered in developing the features of the security and the terms and conditions for its sale to the public, and solicited comments and suggestions. Specifically, the Treasury sought comments concerning the choice of inflation index, structure of the security, auction technique, offering sizes, and maturities. Comments were also solicited on any other issues that would be relevant to the issuance of a Treasury marketable inflation-protection security.

The original 30-day public comment period on the ANPR was subsequently extended through July 3, 1996,⁴ to allow for the submission of additional views and suggestions. On July 24, 1996 the Department held a public symposium, announced through an additional ANPR,⁵ to discuss the advantages and disadvantages of certain proposed security structures under consideration. In addition to announcing this symposium to discuss the proposed features, the second ANPR posed additional specific questions regarding the proposed features and requested written comments in response.

Since announcing Treasury's intention to issue inflation-protection securities in May 1996, the Department staff has also held more than 30 meetings with more than 800 investors, dealers, and other interested parties in Washington, D.C., New York, Boston, Chicago, San Francisco, London, and Tokyo, and by teleconference with Melbourne and Sydney. These meetings provided forums for exchanges of ideas and opinions, and for interested parties to provide their views on the proposed new security. In developing the design and structural terms of the inflation-protection security and the proposed rule, Department staff has also spoken and consulted with various government officials and market participants in Canada, the United Kingdom, and Australia, countries that currently issue inflation-indexed securities, to gather information on their respective

countries' experience with this type of security.

II. Consultation and Comments

A. Introduction

The Department has received 55 comment letters, summarized herein, in response to the two ANPRs. The letters and comments were submitted by a wide range of individuals, academicians, investment management firms, dealers and institutional investors. Specifically, 6 letters were received from trade, legal and/or research organizations; 11 letters from primary government securities dealers; 7 letters from finance and economics professors; 20 letters from commercial banking, advisory, and institutional and individual investment management firms; and 11 letters from individual investors.⁶ In addition, the Department received numerous comments and suggestions from the investor meetings.

While spanning a wide spectrum, with a few commenters not supporting the issuance of an inflation-indexed security, the overwhelming majority of commenters favored and supported the issuance of such a marketable security. A few letters suggested that a non-marketable security, such as a modified U.S. Savings Bond, might be a better inflation-protection investment vehicle.

The comments, while varied, expressed several consistent and reoccurring themes. These themes included the need for simplicity in structure and ease in understanding, the need for liquidity in the issues of inflation-protection securities, and a preference to have the new security conform as much as possible to Treasury's currently issued securities (e.g., use the same auction technique). Generally, there was a desire to avoid the introduction of a security that would differ widely from current market patterns and practices.

The Department has carefully considered all of the comments that were received. While the written comments are summarized below, each comment letter did not necessarily address all aspects of the proposed new security for which comments were solicited. The comments have been summarized and organized into the following five basic categories: the choice of inflation index, the type of structure, taxation issues, auction technique and initial offering amounts, and maturities.

⁶Several commenters submitted more than one letter, with each letter counted separately in arriving at the total count of 55 letters. All of the comment letters and summaries of the investor meetings are available to the public.

B. Choice of Inflation Index

Many commenters discussed the advantages and disadvantages of the various potential indices that could be used to measure inflation, including the indices on which the Department specifically requested comments: the Consumer Price Index for All Urban Consumers (CPI-U), the core CPI (the CPI-U minus the food and energy components of the CPI-U), the Gross Domestic Product (GDP) deflator, and the Employment Cost Index (ECI). Comments were also requested on whether a seasonally or non-seasonally adjusted series would be preferred. The letters indicated a clear consensus that the selected index should be: recognized widely, published frequently, accurate, easily obtainable, easily understood, and not revised retroactively. While each index had some support, the vast majority of those who commented on the index selection advocated that the Consumer Price Index (CPI-U) would be the most appropriate index. Many of those who recommended using the CPI-U noted that it measures the price changes for the market basket of goods and services that most investors are concerned about. Additionally, they noted that it is most similar to the indices used by other countries that currently issue indexed debt, and thus would facilitate understanding the terms of the security.

C. Structure

The ANPRs proposed several structures and design features on which an inflation-protection security could be modelled. These models included: (1) A Canadian-style structure, which is a modification of the United Kingdom's index-linked gilts, in which interest is paid semiannually and the principal amount is adjusted for inflation, so that the inflation-adjusted principal and interest payments remain the same in constant dollars; (2) a zero-coupon structure; (3) a structure that would pay out principal and interest in periodic intervals, similar to a price level adjusted mortgage; and (4) a current-pay structure where all the inflation compensation and real interest is paid out semiannually. Aside from the commenters' opinions on the choice of index, the discussion of possible structures and security design features generated the most discussion and reaction since this decision would directly affect such issues as liquidity, when income is paid, investor appeal and preference, and cost of issuance to Treasury.

All of the proposed structures were commented on, with at least one

³ 61 FR 25164 (May 20, 1996).

⁴ 61 FR 31072 (June 19, 1996).

⁵ 61 FR 38127 (July 23, 1996).

commenter supporting each structure. However, the one structure that was discussed the most and was supported by the majority of commenters was the one modelled on the Real Return Bonds currently issued by the Government of Canada.

After the first ANPR was published, some commenters at the investor meetings suggested that a fourth alternative, the current-pay structure, be considered. Therefore, a second ANPR was published to solicit views on this alternative and to determine which of these structures commenters preferred. In response to the second ANPR, the majority of commenters still preferred the Canadian structure.

Many commenters expressed the view that inflation-protection securities should be eligible for stripping as soon as possible, preferably beginning with the first issue, since stripping would meet market demand for different maturities which would effectively provide for a full term structure of real interest rates. It was generally believed that the Canadian structure would make stripping easier.

There was strong support for reopenings of these securities with a general belief that reopenings would be important for market liquidity and thus would lower Treasury's borrowing costs. Several commenters favored reopenings to prevent market problems due to shortages in an issue. Other commenters believed that the interest paid on the security, rather than the principal amount, should be indexed to the CPI, essentially providing for a floating-rate security. The majority of commenters, however, said they would prefer a Canadian-style security over the current-pay structure.

D. Taxation

The subject of taxation on income earned on the securities was addressed by many respondents. Several advocated that only the interest actually paid should be taxable in the year received, while the inflation adjustment, if accrued rather than paid, should be taxable when actually received by the investor. There was much discussion about whether or not the taxation of the inflation adjustment might reduce demand by non-tax-advantaged investors and that, with the proposed tax treatment, primarily tax-advantaged investors would be initial purchasers and holders of these securities. Other commenters advocated that, regardless of the tax treatment, the tax rules should be easy to understand and administer. Others stated that any inflation adjustment payments should not be taxed.

E. Auction Technique and Initial Offering Amounts

Several commenters addressed the proposed auction technique. As stated in the first ANPR, Treasury proposed that a single-price auction format be adopted with three different bidding options given for consideration. The comments overwhelmingly favored an auction technique with which the market is familiar. These commenters supported the use of the single-price auction format with competitive bids expressed on a real yield basis. The majority of the commenters recommended that interest rates be set in one-eighth of one percent increments that would result in a price at or just below par. Several of these commenters believed this would simplify stripping and facilitate reopenings of the issue. The auction processes recommended by the commenters essentially conform to those techniques currently employed by the Department.

The Department also requested comments on the appropriate size of the initial offering amounts of the auctions and stated its intention to increase the offering sizes over time. Commenters generally supported issues with offering amounts in the \$2-\$5 billion range, increased over time through reopenings.

In the first ANPR, comments were solicited on whether the Treasury should announce, prior to an auction of an inflation-protection security, that it retains, and may exercise, the option to award an amount greater or less than the announced public offering amount. Those commenters who addressed this issue stated that, while they acknowledged Treasury's right to award more or less than the announced public offering amount, such right should be exercised only under extreme circumstances. A general view was that awarding more or less than the stated offering amount would be inconsistent with Treasury's long-standing policy of regular and predictable debt issuance and would contribute to market uncertainty.

F. Maturities

The subject of which maturities the Department should offer resulted in a large number of comments. The ANPR had proposed maturities of either 10 or 30 years. Those who attended the investor meetings, in general, preferred an intermediate-term security, such as a 10-year note, indicating that a 30-year maturity would be too long for the probable investors in this type of security. Some of the written comments stated that the issuance of an inflation-protection security should initially be in

the 10-year range, with a 30-year bond being included later on a regular basis. Others advocated the reverse pattern, with an initial 30-year bond issuance followed by a 10-year note. Several of the letters recommending a longer-term maturity stated that, through stripping, any investor demand for shorter-term inflation-protection securities could be met. Some argued that 10-30 years would be too long. Some also commented that, with limited knowledge of investor preferences prior to implementation of these new securities, some experimentation with different maturity sectors would be appropriate.

Several commenters expressed an interest in a shorter-term security, such as one with a 2-5 year maturity. Some commenters expressed the view that a broad range of maturities covering the short, intermediate, and long ends of the maturity spectrum, or a variation that would provide for a series of maturities in 5-year intervals, should be provided to promote liquidity and meet demand by investors with various maturity horizons.

Some commenters believed that, regardless of the maturities selected, inflation-protection securities should be auctioned at the same time as Treasury's fixed-principal securities with the same, or similar, maturities, believing that this would result in better pricing and liquidity. Others took the opposite view and recommended that the auctions not be part of the quarterly refundings because of the already large amounts of Treasury securities that are auctioned at those times.

G. Other

Additional comments expressed support for the development of futures and other derivative instruments to ensure a deep and liquid market; opposition to a minimum payment guarantee in the belief that this might put downward pressure on the security's price over time; and the need to disclose potential market or interest rate risk to all investors, particularly retail investors, who otherwise might not be aware that there could be a period of negative real return.

III. Section-by-Section Analysis

Based largely on the comments received in response to the ANPRs and the feedback obtained in the various investor meetings, the Department has decided to issue inflation-protection securities similar to the Real Return Bonds issued by the Government of Canada. The proposed securities also are more similar to inflation-indexed securities that have been issued in other

countries, such as the United Kingdom, than they are to the other alternative structures presented in the ANPRs. Under the Canadian structure, the principal amount of the security is adjusted for inflation so that the adjusted value remains the same in constant dollars. The interest rate remains fixed throughout the life of the security, and interest payments are based on the security's inflation-adjusted principal at the time the interest is paid.

The Department believes that the similarity of the proposed structure to inflation-indexed securities issued by other countries is a positive feature. Since many investors are already familiar with this structure, the liquidity of the security on a global basis may be enhanced. In addition, the two structures presented in the ANPRs that would have provided greater cash flows (i.e., paying out the inflation adjustment of the principal and/or interest at periodic intervals) during the period the security was outstanding were not selected because they would have been more complicated and would have carried more reinvestment risk than the Canadian model securities. The other structure presented in the first ANPR, a zero-coupon inflation-indexed security, is being accommodated by making the inflation-protection securities eligible for stripping in the commercial book-entry system, i.e., TRADES (Treasury/Reserve Automated Debt Entry System), immediately upon issuance.

Of the price or wage indices under consideration, the non-seasonally adjusted CPI-U was selected because it is the best known and most widely accepted measure of inflation. This index was also the choice of a substantial majority of commenters to the ANPRs.

Commenters also advocated using the same auction process (e.g., bidding procedures) for inflation-protection securities that is currently used for other marketable Treasury securities. Accordingly, Treasury has decided to use a single-price auction, with bidding on the basis of real yield, expressed with three decimals. The interest rate will be set at the one-eighth of one percent increment that produces the price closest to, but not more than, par when evaluated at the highest real yield awarded to competitive bidders.

As is the case with all marketable Treasury securities, the size and specific terms of the initial issue of the inflation-protection security will be announced shortly before the first auction. The Treasury intends to begin by issuing 10-year inflation-protection notes on January 15, 1997, and on a quarterly

basis thereafter (i.e., the 15th of April, July, October and January). Additional maturities are expected to be auctioned within a year of the first auction of 10-year notes.

This proposed amendment, when finalized, would make the necessary revisions to accommodate the sale and issuance of marketable book-entry Treasury inflation-protection securities. This rule would amend §§ 356.2, 356.3, 356.5, 356.10, 356.12, 356.13, 356.17, 356.20, 356.25, 356.30, 356.31, 356.32, Appendix B, and Exhibit A of the uniform offering circular. This rule also would create two new appendices—Appendix C and Appendix D.

A. Definitions

Specifically, the terms "business day," "Consumer Price Index," "daily interest decimal," "index," "index ratio," "inflation-adjusted principal," "real yield" and "reference CPI" have been added to the listing of definitions in § 356.2.

Several other definitions have been slightly modified to incorporate minor conforming changes. For instance, the definition of "book-entry security" has been modified by adding a sentence referencing the two systems in which marketable Treasury book-entry securities may be held—TRADES and TREASURY DIRECT. Also, the definition of "par amount" has been modified slightly to indicate that the term refers to the stated value of a security at original issuance (i.e., the date from which interest accrues). The meaning of the term, however, essentially remains unchanged. For example, for Treasury bills and fixed-principal securities, the par amount still is the principal amount to be paid at maturity. For inflation-protection securities, par amount does not include an inflation adjustment after issuance. Further, par amount refers to the amount at which all marketable Treasury securities (including inflation-protection securities) will be maintained and transferred in TRADES or TREASURY DIRECT.

The definition of "settlement amount" also has been modified to indicate that, for inflation-protection securities, such amount includes an inflation adjustment, if any. This could happen in the case of reopenings or when the date interest begins to accrue is different from the actual issue date. For fixed-principal securities, the definition of settlement amount is unchanged. Readers should refer to Appendix B, Section III, for examples of

settlement amount computations for inflation-protection securities.⁷

B. Conforming Changes

Changes have been made to § 356.3 to reflect more completely the operation of TRADES. In this system, marketable Treasury book-entry securities are held through a tiered system of ownership, and Treasury discharges its payment obligation when payment is credited to a person's or entity's account maintained at a Federal Reserve Bank. The system is described in Treasury's rules for Treasury securities held in TRADES.⁸ The changes to § 356.3 also clarify Treasury's payment obligation with respect to Treasury securities held in the TREASURY DIRECT system. This section has also been modified to note that inflation-protection securities are maintained and transferred at their par amount in both systems. Adjustments for inflation are not included in the par amount.

In § 356.5, the description of Treasury securities has been modified to distinguish between Treasury securities with fixed-principal amounts and those whose principal amounts will be adjusted for inflation. The Department will nonetheless continue to refer to securities with a fixed-principal amount as "Treasury notes" or "Treasury bonds" in official Treasury publications, such as the offering announcement and auction results press release, as well as in auction systems. Securities whose principal amounts will be adjusted for inflation will be referred to as "Treasury inflation-protection notes" or "Treasury inflation-protection bonds." New paragraphs (b)(2) and (c)(2) provide a brief description of such inflation-protection securities.

In paragraph 356.12(a), a change has been made to clarify that, for reopenings of all securities, bidding will be in terms of par amount. It is noted, however, that in the case of reopenings of inflation-protection securities, the par amount of awarded bids will be multiplied by the applicable index ratio for the additional (reopening) issue date to determine the settlement amount. Treasury will provide this index ratio in the offering announcement for the reopened security. Readers are referred to Appendix B, Section III, Paragraph B of the proposed rules for an example that

⁷ The examples in Appendix B, Section II, pertaining to price computations for fixed-principal securities do not include settlement amount calculations. However, settlement amounts in those examples can be derived by multiplying the price in terms of a percentage of par by the awarded par amount and by adding to that amount any accrued interest.

⁸ 61 FR 43626 (August 23, 1996).

illustrates how bids are to be submitted and how the settlement amount will be calculated for a reopening of an inflation-protection security.

A modification has been made to paragraph 356.12(b)(2) under "additional restrictions" to bidding in auctions. This modification clarifies that a noncompetitive bid cannot be made by any bidder who has held, at any time between the offering announcement and the closing time for receipt of competitive tenders, a position in when-issued trading or in futures or forward contracts in the security being auctioned. This clarifying change is consistent with Treasury's current application of this provision of the uniform offering circular.

In § 356.13, changes have been made to highlight the fact that the net long position reporting threshold amount will always be provided in the offering announcement for each security. This is consistent with Treasury's current practice. The net long position reporting threshold will continue to be \$2 billion for bills, notes, and bonds unless otherwise stated in the offering announcement. For example, the Department anticipates that the net long position reporting threshold for smaller securities offerings, such as initial offerings of inflation-protection securities and certain cash management bills, may be lower than \$2 billion. As is currently the case, the provisions of the offering announcement control whenever any provision of the offering announcement is inconsistent with any provision of the uniform offering circular. (See 31 CFR § 356.10.)

Paragraphs 356.17(a) and (b) contain minor conforming clarifications to reflect that bidders submitting payment with their tender may have to include, in addition to announced accrued interest, an inflation-adjustment amount with their payment.

In § 356.20, paragraph (c)(2) has been expanded to clarify that, for inflation-protection securities, the price for securities awarded to competitive and noncompetitive bidders reflects the highest real yield at which bids were accepted.

No changes have been made to the current \$500 million customer confirmation threshold in § 356.24(d). Thus, any customer awarded a par amount of \$500 million or more of an inflation-protection security is required to furnish to the Federal Reserve Bank to which the bid was submitted a confirmation of its bid and net long position, if any. As with the net long position threshold, if the Department modifies the customer confirmation threshold for any particular auction, the

revised customer confirmation threshold will be stated in the offering announcement for that auction, and the offering announcement will govern.

A conforming change has been made to paragraph 356.25(a)(2) to state that additional amounts due at settlement may include inflation adjustments. Additionally, a new paragraph (c) has been added to § 356.25 to provide that the payment amount for awarded securities will be the settlement amount, as that term is defined in § 356.2.

The last sentence in § 356.30(a) has been modified to reflect that the term "business day" has been added as a defined term to § 356.2.

A new paragraph (b) has been added to § 356.30 to guarantee an investor's par amount of inflation-protection securities. If at maturity the inflation-adjusted principal is less than the par amount of the security, an additional amount will be paid at maturity so that the additional amount plus the inflation-adjusted principal equals the par amount. However, interest payments will always be based on the inflation-adjusted principal.

New paragraphs (c), (d), (e), and (f) have been added to § 356.31 to provide separate descriptions of principal and interest components stripped from fixed-principal and inflation-protection securities. Paragraphs (d) and (f), respectively, distinguish between interest components stripped from fixed-principal securities and interest components stripped from inflation-protection securities in regard to their "fungibility." Interest components having the same maturity date that have been stripped from fixed-principal securities are fungible (i.e., have the same CUSIP number) regardless of the underlying security from which the interest payments were stripped. Interest components stripped from inflation-protection securities, however, will not be fungible with interest components stripped from other inflation-protection or fixed-principal securities, even if they have the same maturity date. Making interest components of inflation-protection securities fungible is not practical because the amount of a particular interest payment for such securities reflects in part the reference CPI for the issue date of that security. Different underlying inflation-protection securities will have different issue dates with different reference CPI numbers. However, Treasury has the ability to increase the amount outstanding of these non-fungible stripped components through reopenings of the underlying inflation-protection securities.

Section 356.31 also has been revised to distinguish between principal components stripped from fixed-principal and inflation-protection securities, which are maintained and transferred in TRADES at their par amount, and interest components stripped from fixed-principal and inflation-protection securities, which are maintained and transferred in TRADES at their original payment value. This value is derived by applying the semiannual interest rate to the par amount. For inflation-protection securities, the amounts maintained and transferred in TRADES are different from the actual value of the principal and interest components as adjusted for inflation. For stripped principal components of inflation-protection securities, the holder will receive the inflation-adjusted principal value or the par amount, whichever is greater, at maturity. For stripped interest components of these securities, the amount payable to the holder will be derived by applying the semiannual interest rate to the inflation-adjusted principal of the underlying security.

Section 356.32 has been reorganized. Paragraph (a) provides a general taxation provision applicable to all marketable Treasury securities. Paragraph (b) applies only to inflation-protection securities. It directs investors to the relevant Internal Revenue Service (IRS) regulations that will be published concurrently with the final rule amending the uniform offering circular for further information about the tax treatment and reporting of inflation-protection securities. From the publication date of this proposed amendment to the uniform offering circular until the date of issuance of the final rule, investors are advised to refer to IRS Notice 96-51 published in the Internal Revenue Bulletin 1996-42 (October 15, 1996) for information regarding taxation of inflation-protection securities and the stripped components of such securities. Additionally, concurrent with the filing of these proposed rules, Treasury is issuing a statement providing a more detailed explanation of the federal income tax treatment for inflation-protection securities and stripped components thereof. Readers interested in receiving a copy of this statement should call the Department's Public Affairs automated facsimile system at 202-622-2040. After issuance of the final uniform offering circular amendment, investors are advised to refer to the applicable proposed and temporary regulations issued under §§ 1275(d) and 1286 of the Internal

Revenue Code. In the preamble to the final amendment to the uniform offering circular rules, the Department will reference the Federal Register and Code of Federal Regulations citations for the IRS regulations, as available.

Minor revisions have been made to existing paragraphs A through D of Appendix B, Section I, by redesignating the paragraphs as numerical subparagraphs and inserting the term "Treasury fixed-principal securities" at the beginning (as paragraph A) to clarify that these paragraphs relate specifically to fixed-principal notes and bonds, not inflation-protection securities. A new paragraph B has been added to Section I of Appendix B that describes and illustrates with an example how the principal value of an inflation-protection security will be adjusted for inflation, how interest payments will be calculated, and how the index ratio for a particular date will be calculated. Unlike paragraph A, which includes examples of short and long interest payments, paragraph B provides only an example of regular half-year interest payments since Treasury does not anticipate short and long interest payments for Treasury inflation-protection securities.

Treasury does not intend to publish the index ratio or any reference CPIs since market participants should be able to make the computations themselves. However, Treasury requests comments on whether or not a monthly publication of the daily index ratios or reference CPIs would be useful to market participants. The Treasury will issue a press release monthly that will provide the non-seasonally adjusted CPI for each of the prior three months. Treasury intends to provide this information through media such as the Internet, telephone recordings, and TAAPS (Treasury Automated Auction Processing System). The monthly CPI numbers are also available from the Bureau of Labor Statistics of the U.S. Department of Labor.

Paragraph B of Section I also explains what Treasury's course of action will be if, while an inflation-protection security is outstanding, the index is revised, rebased to a different year, not reported, or discontinued. The procedures are the same as those originally stated in the first ANPR. If a previously reported CPI is revised, Treasury will continue to use the previously reported CPI in calculating the inflation-adjusted principal and interest payments. If the CPI is rebased to a different year, Treasury will continue to use the CPI based on the base reference period in effect when the security was first issued, as long as that CPI continues to be

published. The specific CPI-U series for each inflation-protection security will be provided in the Treasury offering announcement. If the CPI is discontinued or substantially altered while an inflation-protection security is outstanding, Treasury will consult with the Bureau of Labor Statistics or its successor agency to determine an appropriate substitute index and methodology for linking the two series. Treasury would then notify the public of the substitute index and methodology. For new issues of Treasury inflation-protection securities, if the Federal Government commences publication of an index that is more accurate or otherwise more appropriate for indexation than the Consumer Price Index, Treasury would also notify the public. Moreover, the uniform offering circular would be amended, as appropriate, to reflect changes in the use of the index.

The previous paragraph E to Section I of Appendix B has been redesignated as paragraph C and expanded to include a description of the accrued interest payable calculation for an inflation-protection security if accrued interest covers a fractional portion of the first full half-year period.

Minor changes have been made to paragraphs A through G of Appendix B, Section II, to reflect their applicability solely to fixed-principal securities. A disclaimer has been added near the beginning of Appendix B to clarify that any numbers in the examples are provided only for illustrative purposes and are not intended to be predictions of interest rates for Treasury securities. In addition, a statement regarding intermediate rounding used in the examples has been moved toward the beginning of Appendix B.

A new Section III has been included in Appendix B to illustrate the calculation of the settlement amount for inflation-protection securities with a regular first interest payment period and to illustrate the calculation of the settlement amount, including predetermined accrued interest and inflation adjustment, of a reopened inflation-protection security. Accompanying definitions have also been added.

A new Appendix C containing investment considerations for inflation-protection securities has been added because of the unique factors facing prospective investors in this new security.

A new Appendix D has been added to provide a description of the Consumer Price Index for All Urban Consumers.

Finally, a new Section IV has been added to Exhibit A that provides an

example of an offering announcement press release by the Treasury to the public for an inflation-protection security. The press release includes accompanying highlights.

IV. Procedural Requirements

This proposed rule does not meet the criteria for a "significant regulatory action" pursuant to Executive Order 12866.

Although this rule is being issued in proposed form to secure the benefit of public comment, the notice and public procedures requirements of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2).

Since no notice of proposed rulemaking is required, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601, *et seq.*) do not apply.

There is no new collection of information contained in this proposed rule, and, therefore, the Paperwork Reduction Act does not apply. The collections of information of 31 CFR Part 356 have been previously approved by the Office of Management and Budget under section 3507(d) of the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35) under control number 1535-0112. Under this Act, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number.

List of Subjects in 31 CFR Part 356

Bonds, Federal Reserve System, Government securities, Securities.

Dated: September 23, 1996.

Donald V. Hammond,
Deputy Fiscal Assistant Secretary.

For the reasons set forth in the preamble, 31 CFR Chapter II, Subchapter B, Part 356, is proposed to be amended as follows:

PART 356—SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS, NOTES, AND BONDS (DEPARTMENT OF THE TREASURY CIRCULAR, PUBLIC DEBT SERIES NO. 1-93)

1. The authority citation for part 356 continues to read as follows:

Authority: 5 U.S.C. 301; 31 U.S.C. 3102, *et seq.*; 12 U.S.C. 391.

2. Section 356.2 is amended by revising the definitions of "Accrued interest," "Book-entry security," "Customer," "Interest Rate," "Multiple-price auction," "Par amount," "Settlement amount," "STRIPS," and "Yield;" and adding in alphabetical order the definitions of "Business day,"

“Consumer Price Index,” “Daily interest decimal,” “Index,” “Index ratio,” “Inflation-adjusted principal,” “Real yield,” and “Reference CPI” to read as follows:

§ 356.2 Definitions.

* * * * *

Accrued interest means an amount payable to the Department for such part of the next semiannual interest payment that represents interest income attributed to the period prior to the date of issue. (See Appendix B, Section I, Paragraph C.)

* * * * *

Book-entry security means a security the issuance and maintenance of which are represented by an accounting entry or electronic record and not by a certificate. Treasury book-entry securities may generally be held in either TRADES or in TREASURY DIRECT. (See § 356.3.)

Business day means any day other than a Saturday, Sunday, or other day on which the Federal Reserve Banks are not open for business.

* * * * *

Consumer Price Index (CPI) means the 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. (See Appendix D.)

* * * * *

Customer means a bidder on whose behalf a depository institution or dealer has been directed to submit or forward a competitive or noncompetitive bid for a specified amount of securities in a specific auction. Only depository institutions and dealers may submit or forward bids for customers, whether directly to a Federal Reserve Bank or the Bureau of the Public Debt, or through an intermediary depository institution or dealer.

Daily interest decimal means, for a fixed-principal security, the interest factor attributable to one day of an interest payment period per \$1,000 par amount.

* * * * *

Index means the Consumer Price Index, which is used as the basis for making adjustments to principal amounts of inflation-protection securities. (See Appendix D.)

Index ratio means, for any particular date and any particular inflation-protection security, the Reference CPI applicable to such date divided by the Reference CPI applicable to the original issue date (or dated date, when the dated date is different from the original issue date). (See Appendix B, Section I, Paragraph B.)

Inflation-adjusted principal means, for an inflation-protection 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.)

* * * * *

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

* * * * *

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

* * * * *

Real yield means, for an inflation-protection security, the yield based on the payment stream in constant dollars, i.e., before adjustment by the index ratio.

Reference CPI (Ref CPI) means, for an inflation-protection security, the index number applicable to a given date. (See Appendix B, Section I, Paragraph B.)

* * * * *

Settlement amount means the par amount of securities awarded less any discount amount and plus any premium amount and/or any accrued interest. For inflation-protection 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.

* * * * *

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

* * * * *

Yield, also referred to as “yield to maturity,” means the annualized rate of return to maturity on a fixed-principal security expressed as a percentage. For an inflation-protection security, yield means the real yield. (See Appendix B.)

3. Section 356.3 is amended by revising the introductory paragraph and the heading of paragraph (a) and removing footnote 1; adding three sentences at the end of paragraph (a); and adding a second sentence at the end of paragraph (b), to read as follows:

§ 356.3 Book-entry securities and systems.

Securities issued subject to this Part shall be held and transferred in either of the two book-entry securities systems—TRADES or TREASURY DIRECT—described in this section. Securities are maintained and transferred, to the extent authorized in 31 CFR 357, in these two book-entry systems at their par amount, e.g., for inflation-protection securities, adjustments for inflation will not be included in this amount. Securities may be transferred from one system to the other in accordance with Treasury regulations governing book-entry Treasury bills, notes, and bonds. See Department of the Treasury Circular, Public Debt Series No. 2-86, as amended (31 CFR Part 357).

(a) Treasury/Reserve Automated Debt Entry System (TRADES). * * * For accounts maintained in TRADES, Treasury discharges its payment obligations when payment is credited to the applicable account maintained at a Federal Reserve Bank or payment is made in accordance with the instructions of the person or entity maintaining such account. Further, neither Treasury nor the Federal Reserve Banks have any obligations to, nor will they recognize any claims of, any person or entity that does not have an account at a Federal Reserve Bank. In addition, neither Treasury nor the Federal Reserve Banks will recognize the claims of any person or entity with respect to any accounts not maintained at a Federal Reserve Bank.

(b) * * * In TREASURY DIRECT, Treasury discharges its payment obligations when payment is made to a depository institution for credit to the account specified by the owner of the security, or when payment is made in accordance with the instructions of the owner of the security.

* * * * *

4. Section 356.5 is amended by revising the introductory text and paragraphs (b) and (c) to read as follows:

§ 356.5 Description of securities.

Securities offered pursuant to this Part are offered exclusively in book-entry form and are direct obligations of the United States, issued under Chapter 31 of Title 31 of the United States Code. The securities are subject to the terms and conditions set forth in this Part, including the appendices, as well as the regulations governing book-entry Treasury bills, notes, and bonds (31 CFR Part 357), and the offering announcements, all to the extent applicable. When the Department issues additional securities with the same CUSIP number as outstanding

securities, all securities with the same CUSIP number are considered the same security.

* * * * *

(b) *Treasury notes*—(1) *Treasury fixed-principal*¹ notes. Treasury fixed-principal notes are issued with a stated rate of interest to be applied to the par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount, par, or premium, depending upon the auction results. They have maturities of at least one year, but not more than ten years.

(2) *Treasury inflation-protection notes*. Treasury inflation-protection notes are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. They have maturities of at least one year, but not more than ten years. (See Appendix B for price and interest payment calculations and Appendix C for Investment Considerations.)

(c) *Treasury bonds*—(1) *Treasury fixed-principal bonds*. Treasury fixed-principal bonds are issued with a stated rate of interest to be applied to the par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount, par, or premium, depending upon the auction results. They typically have maturities of more than ten years.

(2) *Treasury inflation-protection bonds*. Treasury inflation-protection bonds are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. They typically have maturities of more than ten years. (See Appendix B for price and interest payment calculations and Appendix C for Investment Considerations.)

5. Section 356.10 is amended by adding a sentence at the end of the paragraph, before the parenthetical last sentence, to read as follows:

¹ The term "fixed-principal" is used in this Part to distinguish such securities from "inflation-protection" securities. Fixed-principal notes and fixed-principal bonds are referred to as "notes" and "bonds" in official Treasury publications, such as offering announcements and auction results press releases, as well as in auction systems.

§ 356.10 Offering announcement.

* * * Accordingly, bidders should read the applicable offering announcement in conjunction with this Part. * * *

6. Section 356.12 is amended by revising the first sentence of paragraph (a); revising paragraphs (b)(2), (c)(1) (i) and (ii); and adding new paragraph (c)(1)(iii) to read as follows:

§ 356.12 Noncompetitive and competitive bidding.

(a) *General*. All bids, including bids for reopenings, must state the par amount of securities bid for and must equal or exceed the minimum bid amount stated in the offering announcement. * * *

(b) * * *

(2) *Additional restrictions*. A bidder may not bid noncompetitively for its own account if, in the security being auctioned, it holds or has held a position in when-issued trading or in futures or forward contracts at any time between the date of the offering announcement and the designated closing time for the receipt of competitive tenders. * * *

(c) * * *

(1) * * *

(i) *Treasury bills*. A competitive bid must show the discount rate bid, expressed with two decimals, e.g., 3.10. Fractions may not be used.

(ii) *Treasury fixed-principal securities*. A competitive bid must show the yield bid, expressed with three decimals, e.g., 4.170. Fractions may not be used.

(iii) *Treasury inflation-protection securities*. A competitive bid must show the real yield bid, expressed with three decimals, e.g., 3.070. Fractions may not be used.

* * * * *

7. Section 356.13 is amended by revising paragraph (a) to read as follows:

§ 356.13 Net long position.

(a) *Reporting net long positions*. When bidding competitively, a bidder must report the amount of its net long position when the total of all of its bids in an auction plus the bidder's net long position in the security being auctioned equals or exceeds the net long position reporting threshold amount. The threshold amount for any particular security will be as stated in the offering announcement for that security. (See § 356.10.) That amount will be \$2 billion for bills, notes, and bonds unless otherwise stated in the offering announcement. For example, the net long position reporting threshold amount may be less than \$2 billion for smaller security offerings, e.g., certain

inflation-protection securities or cash management bills. If the bidder either has no position or has a net short position and the total of all of its bids equals or exceeds the threshold amount, e.g., \$2 billion, a net long position of zero must be reported. * * *

* * * * *

8. Section 356.17 is amended by revising the last sentence in the introductory paragraph and the introductory text of paragraphs (a) and (b) to read as follows:

§ 356.17 Responsibility for payment.

* * * The specific requirements, outlined in this section, depend on whether awarded securities will be delivered in TREASURY DIRECT or TRADES.

(a) *TREASURY DIRECT*. For securities to be held in TREASURY DIRECT, payment of the par amount and announced accrued interest and/or inflation adjustment, if any, must be submitted with the tender unless other provision has been made, such as provision for payment by charge to the funds account of a depository institution.

* * * * *

(b) *TRADES*. For securities to be held in TRADES, payment of the par amount and announced accrued interest and/or inflation adjustment, if any, must be submitted with the tender unless provision has been made for payment by charge to the funds account of a depository institution.

* * * * *

9. Section 356.20 is amended by revising the introductory text of paragraph (c) and adding a sentence to the end of paragraph (c)(2) to read as follows:

§ 356.20 Determination of auction awards.

* * * * *

(c) *Determining purchase prices for awarded securities*. Price calculations will be rounded to three decimal places on the basis of price per hundred, e.g., 99.954. (See Appendix B.)

* * * * *

(2) * * * For inflation-protection securities, the price of such securities will be the price equivalent to the highest real yield at which bids were accepted.

10. Section 356.25 is amended by revising the last sentence in paragraph (a)(2), and adding paragraph (c) to read as follows:

§ 356.25 Payment for awarded securities.

* * * * *

(a) * * *

(2) * * * Such additional amount may be due if the auction calculations result

in a premium or if accrued interest and/or inflation adjustment is due.

* * * * *

(c) *Amount of payment for awarded securities.* The payment amount for awarded securities will be the settlement amount as defined in § 356.2. (See formulas in Appendix B.)

11. Section 356.30 is amended by redesignating the text of the current section as (a), adding a heading of "General" and revising the last sentence in newly redesignated paragraph (a), and adding paragraph (b) to read as follows:

§ 356.30 Payment of principal and interest on notes and bonds.

(a) *General.* * * * In the event any principal or interest payment date is not a business day, the amount is payable (without additional interest) on the next business day.

(b) *Treasury inflation-protection securities.* If at maturity the inflation-adjusted principal is less than the par amount of the security, an additional amount will be paid at maturity so that the additional amount plus the inflation-adjusted principal equals the par amount. If a security has been stripped, any such additional amount will be paid at maturity to holders of principal components only. Regardless of whether or not an additional amount is paid, the final interest payment will be based on the inflation-adjusted principal at maturity.

12. Section 356.31 is amended by revising paragraph (a) and the first sentence of paragraph (b), redesignating paragraphs (c) and (d) as paragraphs (g) and (h) respectively, adding new paragraphs (c) through (f), adding a third and fourth sentence to newly redesignated paragraph (g) and revising newly redesignated paragraph (h) to read as follows:

§ 356.31 STRIPS.

(a) *General.* A note or bond may be designated in the offering announcement as eligible for the STRIPS program. At the option of the holder, and generally at any time from its issue date until its call or maturity, any such security may be "stripped," i.e., divided into separate principal and interest components. A short or long first interest payment and all interest payments within a callable period are not eligible to be stripped from the principal component. The CUSIP numbers and payment dates for the principal and interest components are provided in the offering announcement if not previously announced.

(b) *Minimum par amounts required for STRIPS.* For a note or bond to be

stripped into the components described above, the par amount, which is not adjusted for inflation, of the note or bond must be in an amount that, based on its interest rate, will produce a semiannual interest payment in a multiple of \$1,000. * * *

(c) *Principal components stripped from fixed-principal securities.* Principal components stripped from fixed-principal securities are maintained in accounts, and transferred, in TRADES at their par amount. The principal components have a CUSIP number that is different from the CUSIP number of the fully-constituted (unstripped) security.

(d) *Interest components stripped from fixed-principal securities.* Interest components stripped from fixed-principal securities are maintained in accounts, and transferred, in TRADES at their original payment value, which is derived by applying the semiannual interest rate to the par amount. When an interest component is created, the interest payment date becomes the maturity date for the component. All such components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped. All interest components have CUSIP numbers that are different from the CUSIP number of any fully-constituted security and any principal component.

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

(f) *Interest components stripped from inflation-protection securities.* Interest components stripped from inflation-protection securities are maintained in accounts, and transferred, in TRADES at their original payment value, which is derived by applying the semiannual interest rate to the par amount. When an interest component is created, the interest payment date becomes the maturity date for the component. Each such component has a unique CUSIP number that is different from the CUSIP number of any interest components stripped from different securities, even if the components have the same maturity date. All interest components have CUSIP numbers that are different from the CUSIP number of any fully-

constituted security and any principal component. At maturity, the payment to the holder will be derived by applying the semiannual interest rate to the inflation-adjusted principal of the underlying security.

(g) *Reconstituting a security.* * * * Interest components stripped from inflation-protection securities are different from interest components stripped from fixed-principal securities and, accordingly, are not interchangeable for reconstitution purposes. Interest components stripped from one inflation-protection security are not interchangeable for reconstitution purposes with interest components stripped from another inflation-protection security.

(h) *Applicable regulations.* Unless otherwise provided in this Part, notes and bonds stripped into their STRIPS components are governed by Subparts A, B and D of Part 357 of this title.

13. Section 356.32 is revised to read as follows:

§ 356.32 Taxation.

(a) *General.* Securities issued under this Part are subject to all applicable taxes imposed under the Internal Revenue Code of 1986, or 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-protection securities.* Special federal income tax rules for inflation-protection securities, and principal and interest components stripped from such securities, are set forth in Internal Revenue Service regulations.

14. Appendix B to Part 356 is amended by revising the list of section titles, and adding two new paragraphs following the list to read as follows:

Appendix B to Part 356—Formulas and Tables

- I. Computation of Interest on Treasury Bonds and Notes.
- II. Formulas for Conversion of Fixed-Principal Security Yields to Equivalent Prices.
- III. Formulas for Conversion of Inflation-Protection Security Yields to Equivalent Prices.
- IV. Computation of Purchase Price, Discount Rate, and Investment Rate (Coupon-Equivalent Yield) for Treasury Bills.

The numbers in this appendix are examples given for illustrative purposes only and are in no way a prediction of interest rates on any bills, notes, or bonds issued under this Part.

In some of the following examples, intermediate rounding is used to allow

the reader to follow the calculations. In actual practice, the Department generally does not round prior to determining the final result.

15. Appendix B, Section I is amended as follows: by redesignating paragraphs A through D and their corresponding Examples as paragraphs A.1. through A.4. respectively, and adding a new title for paragraph A, revising newly redesignated paragraph A.1., revising the first sentence in newly redesignated paragraphs A.2., A.3. and its Example, and A.4. and its Example; by adding a new paragraph B; and by redesignating paragraph E as paragraph C, revising the second paragraph, adding a third paragraph prior to the Examples in newly redesignated paragraph C., redesignating the headings for Examples C. (1) and (2) as C.(1)(i) and C.(1)(ii) respectively, and adding a new heading for Example C.(1).

I. Computation of Interest on Treasury Bonds and Notes

A. Treasury Fixed-Principal Securities

1. Regular Half-Year Payment Period

Interest on marketable fixed-principal securities is payable on a semiannual basis. The regular interest payment period is a full half-year of six calendar months. Examples of half-year periods are: (1) February 15 to August 15, (2) May 31 to November 30, and (3) February 29 to August 31 (in a leap year). Calculation of an interest payment for a fixed-principal security with a par amount of \$1,000 and an interest rate of 8% is made in this manner: (\$1,000 × .08) \$40. Specifically, a semiannual interest payment represents one half of one year's interest, and is computed on this basis regardless of the actual number of days in the half-year.

2. Daily Interest Decimal

In cases where an interest payment period for a fixed-principal security is shorter or longer than six months or where accrued interest is payable by an investor, a daily interest decimal, based

on the actual number of days in the half-year or half-years involved, must be computed. * * *

* * * * *

3. Short First Payment Period

In cases where the first interest payment period for a fixed-principal security covers less than a full half-year period (a "short coupon"), the daily interest decimal is multiplied by the number of days from, but not including, the issue date to, and including, the first interest payment date, resulting in the amount of the interest payable per \$1,000 par amount. * * *

Example. A 2-year fixed-principal note paying 8% interest was issued on July 2, 1990, with the first interest payment on December 31, 1990. * * *

4. Long First Payment Period

In cases where the first interest payment period for a fixed-principal security covers more than a full half-year period (a "long coupon"), the daily interest decimal is multiplied by the number of days from, but not including, the issue date to, and including, the last day of the fractional period that ends one full half-year before the interest payment date. * * *

Example. A 5-year 2-month fixed-principal note paying 7-7/8% interest was issued on December 3, 1990, with the first interest payment due on August 15, 1991. * * *

B. Treasury Inflation-Protection Securities

1. Indexing Process

Interest on marketable Treasury inflation-protection securities is payable on a semiannual basis. The inflation-protection securities are issued with a stated rate of interest which remains constant for the term of the particular security. Interest payments are based on the security's inflation-adjusted principal at the time interest is paid. This adjustment is made by multiplying the par amount of the security by the applicable index ratio.

2. Index Ratio

The numerator of the Index ratio, the Ref CPI_{Date}, is the index number applicable for a specific day, and the denominator of the Index ratio is the Ref CPI applicable for the original issue date. However, when the dated date is different from the original issue date, the denominator is the Ref CPI applicable for the dated date. The formula for calculating the Index ratio is:

$$\text{Index ratio}_{\text{Date}} = \frac{\text{Ref CPI}_{\text{Date}}}{\text{Ref CPI}_{\text{Issue Date}}}$$

Where Date = valuation date

Treasury does not intend to publish the Index ratio for use by market participants. Rather dealers, financial institutions, and other market participants that need the Index ratio for trading purposes are expected to calculate the ratio using the formula provided above.

3. Reference CPI

The Ref CPI for the first day of any calendar month is the CPI for the third preceding calendar month. For example, the Ref CPI applicable to April 1 in any year is the CPI for January, which is reported in February. The Ref CPI for any other day of a month is determined by a linear interpolation between the Ref CPI applicable to the first day of the month in which such day falls (in the example, January) and the Ref CPI applicable to the first day of the month immediately following (in the example, February). For purposes of interpolation, calculations with regard to the Ref CPI and the Index ratio for a specific date will be truncated to six decimal places and rounded to five decimal places such that the Ref CPI and the Index ratio for that date will be expressed to five decimal places. The formula for the Ref CPI for a specific date is:

$$\text{Ref CPI}_{\text{Date}} = \text{Ref CPI}_M + \frac{t-1}{D} [\text{Ref CPI}_{M+1} - \text{Ref CPI}_M]$$

Where Date = valuation date

D = the number of days in the month in which Date falls

t = the calendar day corresponding to Date

Ref CPIM = Ref CPI for the first day of the calendar month in which Date falls

Ref CPI_{M + 1} = Ref CPI for the first day of the calendar month immediately following Date

For example, the Ref CPI for April 15, 1996 is calculated as follows:

$$\text{Ref CPI}_{\text{April 15, 1996}} = \text{Ref CPI}_{\text{April 1, 1996}} + \frac{14}{30} [\text{Ref CPI}_{\text{May 1, 1996}} - \text{Ref CPI}_{\text{April 1, 1996}}]$$

where $D = 30$, $t = 15$
 Ref $CPI_{April\ 1,\ 1966} = 154.40$, the
 nonseasonally adjusted CPI-U for
 January 1996.

Ref $CPI_{May\ 1,\ 1966} = 154.90$, the
 nonseasonally adjusted CPI-U for
 February 1996.

Putting these values in the equation
 above:

$$\text{Ref } CPI_{April\ 15,\ 1996} = 154.40 + \frac{14}{30} [154.90 - 154.40]$$

$$\text{Ref } CPI_{April\ 15,\ 1996} = 154.633333333$$

This value truncated to six decimals
 is 154.633333; rounded to five decimals
 it is 154.63333.

To calculate the index ratio for April
 16, 1996, for an inflation-protection
 security issued on April 15, 1996, the
 Ref $CPI_{April\ 16,\ 1966}$ must first be
 calculated. Using the same values in the
 equation above except that $t=16$, the Ref
 $CPI_{April\ 16,\ 1966}$ is 154.65000.

The index ratio for April 16, 1996 is:
 $\text{Index Ratio}_{April\ 16,\ 1966} = 154.65000 /$
 $154.63333 = 1.000107803$.

This value truncated to six decimals
 is 1.000107; rounded to five decimals it
 is 1.00011.

4. Index Contingencies

If a previously reported CPI is revised,
 Treasury will continue to use the
 previously reported CPI in calculating
 the principal value or interest payments.

If the CPI is rebased to a different
 year, Treasury will continue to use the
 CPI based on the base reference period
 in effect when the security was first
 issued, as long as that CPI continues to
 be published.

If the CPI is discontinued or
 substantially altered while an inflation-
 protection security is outstanding,
 Treasury will consult with the Bureau of
 Labor Statistics, or any successor
 agency, to determine an appropriate
 substitute index and methodology for
 linking the two series. Treasury will
 then notify the public of the substitute
 index and methodology. Determinations
 of the Secretary in this regard will be
 final.

If the CPI for a particular month is not
 reported by the last day of the following
 month, the Treasury will announce an
 index number based on the last twelve-
 month change in the CPI available. Any
 calculations of the Treasury's payment
 obligations on the inflation-protection
 security that rely on that month's CPI
 will be based on the index number that
 the Treasury has announced. For
 example, if the CPI for month M is not
 reported timely, the formula for
 calculating the index number to be used
 is:

$$\text{Ref } CPI_M = CPI_{M-1} \times \left[\frac{CPI_{M-1}}{CPI_{M-12}} \right]^{\frac{1}{12}}$$

This index number will be used for all
 subsequent calculations that rely on that
 month's index number and will not be
 replaced by the actual CPI when it is
 reported.

Generalizing for the last reported CPI
 issued N months prior to month M:

$$\text{Ref } CPI_M = CPI_{M-N} \times \left[\frac{CPI_{M-N}}{CPI_{M-N-12}} \right]^{\frac{N}{12}}$$

5. Computation of Interest for a Regular
 Half-Year Payment Period

Interest on marketable Treasury
 inflation-protection securities is payable
 on a semiannual basis. The regular
 interest payment period is a full half-
 year or six calendar months. Examples
 of half-year periods are January 15 to
 July 15, and April 15 to October 15. An
 interest payment will be a fixed
 percentage of the value of the inflation-
 adjusted principal, in current dollars,
 for the date on which it is paid. Interest
 payments will be calculated by
 multiplying one-half of the specified
 annual interest rate for the inflation-
 protection securities by the inflation-
 adjusted principal for the interest
 payment date. Specifically, a
 semiannual interest payment is
 computed on the basis of one half of one
 year's interest regardless of the actual
 number of days in the half-year.

Example. A 10-year inflation-protection
 note paying 3% interest was issued on July
 15, 1996, with the first interest payment on
 January 15, 1997. The Ref CPI on July 15,
 1996 (Ref $CPI_{Issue\ Date}$) was 120, and the Ref
 CPI on January 15, 1997 (Ref CPI_{Date}) was
 132. For a par amount of \$100,000, the
 inflation adjusted principal on January 15,
 1997 was $(132/120) \times \$100,000$, or \$110,000.
 This amount was then multiplied by .03/2, or
 .015, resulting in a payment of \$1,650.00.

C. Accrued Interest

* * * * *

For a fixed-principal security, if
 accrued interest covers a fractional
 portion of a full half-year period, the
 number of days in the full half-year
 period and the stated interest rate will
 determine the daily interest decimal to
 be used in computing the accrued
 interest. The decimal is multiplied by
 the number of days for which interest
 has accrued. If a reopened fixed-
 principal security has a long first
 interest payment period (a "long
 coupon"), and the dated date for the
 reopened issue is less than six full
 months before the first interest payment,
 the accrued interest will fall into two
 separate half-year periods, and a
 separate daily interest decimal must be
 multiplied by the respective number of
 days in each half-year period during
 which interest has accrued. All accrued
 interest computations are rounded to
 five decimal places for a \$1,000
 inflation-adjusted principal, using
 normal rounding procedures. Accrued
 interest for a par amount of securities
 greater than \$1,000 is calculated by
 applying the appropriate multiple to
 accrued interest payable for \$1,000 par
 amount, rounded to five decimal places.

For an inflation-protection security,
 accrued interest will be calculated as
 shown in Section III, Paragraphs A and
 B of this Appendix.

Examples. (1) Fixed-Principal Securities

- (i) Involving One Half-Year: * * *
 - (ii) Involving Two Half-Years: * * *
16. Appendix B, Section II is amended
 by removing footnote 1, revising the
 Section heading, revising the
 definition of "C=", and revising the
 headings of paragraphs A through G
 to read as follows:

II. Formulas for Conversion of Fixed-
 Principal Security Yields to Equivalent
 Prices

Definitions

* * * * *
 C = the regular annual interest per \$100,
 payable semiannually, e.g., 10.125
 (the dollar equivalent of a 10-1/8%
 interest rate)

* * * * *

A. For fixed-principal securities with a regular first interest payment period:

* * * * *

B. For fixed-principal securities with a short first interest payment period:

* * * * *

C. For fixed-principal securities with a long first interest payment period:

* * * * *

D. (1) For fixed-principal securities reopened during a regular interest period where the purchase price includes predetermined accrued interest.

(2) For new fixed-principal securities accruing interest from the coupon frequency date immediately preceding the issue date, with the interest rate established in the auction being used to determine the accrued interest payable on the issue date.

* * * * *

E. For fixed-principal securities reopened during the regular portion of a long first payment period:

* * * * *

F. For fixed-principal securities reopened during a short first payment period:

* * * * *

G. For fixed-principal securities reopened during the fractional portion (initial short period) of a long first payment period:

* * * * *

17. Appendix B is amended by redesignating Section III as Section IV and adding a new Section III to read as follows:

III. Formulas for Conversion of Inflation-Protection Security Yields to Equivalent Prices

Definitions

- P = unadjusted or real price per 100 (dollars)
- P_{adj} = inflation adjusted price; P × Index Ratio_{Date}
- A = unadjusted accrued interest per \$100 original principal
- A_{adj} = inflation adjusted accrued interest; A × Index Ratio_{Date}
- SA = settlement amount including accrued interest in current dollars per \$100 original principal; P_{adj} + A_{adj}
- r = days from settlement date to next coupon date
- s = days in current semiannual period
- i = real yield, expressed in decimals (e.g., 0.0325)
- C = real annual coupon, payable semiannually, in terms of real dollars paid on \$100 initial, or real, principal of the security
- n = number of full semiannual periods from issue date to maturity date, except that, if the issue date is a coupon frequency date, n will be one less than the number of full semiannual periods remaining until

maturity. Coupon frequency dates are the two semiannual dates based on the maturity date of each note or bond issue. For example, a security maturing on July 15, 2026 would have coupon frequency dates of January 15 and July 15.

$$v^n = 1/(1 + i/2)^n$$

$$a_{n|} = (1 - v^n)/(i/2) = v + v^n + v^2 + v^3 + \dots + v^n$$

- Date = valuation date
- D = the number of days in the month in which Date falls
- t = calendar day corresponding to Date
- CPI = Consumer Price Index number
- Ref CPI_M = reference CPI for the first day of the calendar month in which Date falls
- Ref CPI_{M+1} = reference CPI for the first day of the calendar month immediately following Date
- Ref CPI_{Date} = Ref CPI_M + [(t - 1)/D][Ref CPI_{M+1} - Ref CPI_M]
- Index Ratio_{Date} = Ref CPI_{Date}/Ref CPI_{Issue Date}

A. For inflation-protection securities with a regular first interest payment period:

Formulas:

$$P = \frac{(C/2) + (C/2)a_{n|} + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

- P_{adj} = P × Index Ratio_{Date}
- A = [(s - r)/s] × (C/2)
- A_{adj} = A × Index Ratio_{Date}
- SA = P_{adj} + A_{adj}
- Index Ratio_{Date} = Ref CPI_{Date}/Ref CPI_{Issue Date}

Example. The Treasury issues a 10-year inflation-protection note on July 15, 1996. The note is issued at a discount to yield 3.1% (real). The note bears a 3% real coupon, payable on January 15 and July 15 of each year. The base CPI index applicable to this note is 120.¹ Calculate the settlement amount.

Definitions:

- C = 3.00
- i = 0.0310
- n = 19 (There are 20 full semiannual periods but n is reduced by 1 because the issue date is a coupon frequency date.)

r = 184 (July 15, 1996 to January 15, 1997)

s = 184 (July 15, 1996 to January 15, 1997)

Ref CPI_{Date} = 120

Ref CPI_{Issue Date} = 120

Resolution:

Index Ratio_{Date} = Ref CPI_{Date}/Ref CPI_{Issue Date} = 120/120 = 1

A = [(184 - 184)/184] × 3/2 = 0

A_{adj} = 0 × 1 = 0

vⁿ = 1/(1 + i/2)ⁿ = 1/(1 + .031/2)¹⁹ = 0.74658863

a_{n|} = (1 - vⁿ)/(i/2) = (1 - 0.74658863)/(.031/2) = 16.34912050

$$P = \frac{(C/2) + (C/2)a_{n|} + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2) - [(184 - 184)/184](3/2)$$

P = 99.14578432

P_{adj} = P × Index Ratio_{Date}

P_{adj} = 99.14578432 × 1 = 99.14578432

SA = P_{adj} + A_{adj}

SA = 99.14578432 + 0 = 99.14578432

B. For inflation-protection securities reopened during a regular interest period where the purchase price includes predetermined accrued interest:

Bidding:

The dollar amount of each bid is in terms of the par amount. For example, if the Ref CPI applicable to the issue date of the bond is 120, and the reference CPI applicable to the reopening issue date is 132, a bid of

¹ This number is normally derived using the interpolative process described in Appendix B, Section I, Paragraph B.

\$10,000 will in effect be a bid of \$10,000×(132/120), or \$11,000.

Formulas:

$$P = \frac{(C/2) + (C/2)a_{n|} + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

$P_{adj} = P \times \text{Index Ratio}_{Date}$

$A = [(s-r)/s](C/2)$

$A_{adj} = A \times \text{Index Ratio}_{Date}$

$SA = P_{adj} + A_{adj}$

$\text{Index Ratio}_{Date} = \text{Ref CPI}_{Date} / \text{Ref}$

$\text{CPI}_{Issue Date}$

Example. A 3% 10-year inflation-protection note was issued July 15, 1996, due July 15, 2006, with interest payments on January 15 and July 15. For a reopening on April 15, 1997, with inflation compensation accruing from July 15, 1996 to April 15, 1997, and accrued interest accruing from January 15, 1997 to April 15, 1997, (90 days) solve for the price per 100 (P) at a real yield, as determined in the reopening auction, of 3.40%. The base index applicable to the issue date of this note is 120 and the reference CPI applicable to April 15, 1997, is 132.

Definitions:

$C = 3.00$

$i = 0.0340$

$n = 18$

$r = 91$ (April 15, 1997, to July 15, 1997)

$s = 181$ (January 15, 1997, to July 15, 1997)

$\text{Ref CPI}_{Date} = 132$

$\text{Ref CPI}_{Issue Date} = 120$

Resolution:

$\text{Index Ratio}_{Date} = \text{Ref CPI}_{Date} / \text{Ref}$

$\text{CPI}_{Issue Date} = 132/120 = 1.100$

$v^n = 1/(1+i/2)^n = 1/(1+.0340/2)^{18} = 0.73828296$

$$a_{n|} = \left(1 - v^n\right) / (i/2) = (1 - 0.73828296) / (0.0340/2) = 15.39512$$

$$P = \frac{(C/2) + (C/2)a_{n|} + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

$$(3/2) + (3/2)(15.39512)$$

$$P = \frac{+100(0.73828296)}{1 + (91/181)(0.0340/2)}$$

$$- [(181-91)/181](3/2)$$

$P = 96.841049$

$P_{adj} = P \times \text{Index Ratio}_{Date}$

$P_{adj} = 96.841049 \times 1.100 = 106.525154$

$A = [(181-91)/181] \times 3/2 = 0.745856$

$A_{adj} = A \times 1.100 = 0.820442$

$SA = P_{adj} + A_{adj} = 106.525154 + 0.820442$

SA = 107.345596

* * * * *

18. Part 356 is amended by adding new Appendixes C and D to read as follows:

Appendix C to Part 356—Investment Considerations

I. Inflation-Protection Securities

A. *Principal and Interest Variability*

An investment in securities with principal or interest determined by reference to an inflation index involves factors not associated with an investment in a fixed-principal security. Such factors may include, without limitation, the possibility that the inflation index may be subject to significant changes, that changes in the index may or may not correlate to changes in interest rates generally or with changes in other indices, that the resulting interest may be greater or less than that payable on other securities of similar maturities, and that, in the event of sustained deflation, the amount of the semiannual interest payments, the inflation-adjusted principal of the security, and the value of stripped components, will decrease. However, if at maturity the inflation-adjusted principal is less than a security's par amount, an additional amount will be paid at maturity so that the additional amount plus the inflation-adjusted principal equals the par amount. Regardless of whether or not such an additional amount is paid, interest payments will always be based on the inflation-adjusted principal as of the interest payment date. If a security has been stripped, any such additional amount will be paid at maturity to holders of principal components only. (See § 356.30.)

B. *Trading in the Secondary Market*

The Treasury securities market is the largest and most liquid securities market in the world. While Treasury expects that there will be an active secondary market for inflation-protection securities, that market initially may not be as active or liquid as the secondary market for Treasury fixed-principal securities. In addition, as a new product, inflation-protection securities may not be as widely traded or as well understood as Treasury fixed-principal securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and asked prices for inflation-protection securities than the bid-asked spreads for fixed-principal securities with the same time to maturity. Larger bid-asked spreads normally result in higher transaction costs and/or lower overall returns. The

liquidity of an inflation-protection security may be enhanced over time as Treasury issues additional amounts or more entities participate in the market.

C. *Tax Considerations*

Treasury inflation-protection securities and the stripped interest and principal components of these securities are subject to specific tax rules provided by Treasury regulations issued under sections 1275(d) and 1286 of the Internal Revenue Code of 1986, as amended.

D. *Indexing Issues*

While the CPI measures changes in prices for goods and services, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future.

The calculation of the index ratio incorporates an approximate three-month lag, which may have an impact on the trading price of the securities, particularly during periods of significant, rapid changes in the index.

The CPI is reported by the Bureau of Labor Statistics, a bureau within the Department of Labor. The Bureau of Labor Statistics operates independently of the Treasury and, therefore, Treasury has no control over the determination, calculation, or publication of the index. For a discussion of how the CPI will be applied in various situations, see Appendix B, Section I, Paragraph B.

Appendix D to Part 356—Description of the Consumer Price Index

The Consumer Price Index ("CPI") for purposes of inflation-protection securities is the non-seasonally adjusted *U.S. City Average All Items Consumer Price Index for All Urban Consumers*, published monthly by the Bureau of Labor Statistics of the Department of Labor. The CPI is a measure of the average change in consumer prices over time in a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors' and dentists' services, and drugs.

In calculating the index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically to take into account changes in consumer expenditure patterns.

The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100. For example, if the CPI for the 1982-84 reference period is 100.0, an increase of 16.5 percent from that period would be shown as 116.5. The CPI for a particular month is released and published during the following month. From time to time, the CPI is rebased to a more recent base reference period. The base reference period for a particular inflation-protection security will be provided on the offering announcement for that security.

Further details about the CPI may be obtained by contacting the Bureau of Labor Statistics.

19. Exhibit A to Part 356 is amended by adding a new Section IV to the list of section titles and to the text of Exhibit A to read as follows:

Exhibit A to Part 356—Sample Announcements of Treasury Offerings to the Public

* * * * *

IV. Treasury Inflation-Protection Note Announcement

* * * * *

IV. Treasury Inflation-Protection Note Announcement

EMBARGOED UNTIL 2:30 P.M. October 2, 20XX

CONTACT: Office of Financing 202/219-3350

TREASURY TO AUCTION \$5,500 MILLION OF 10-YEAR INFLATION-PROTECTION NOTES

The Treasury will auction \$5,500 million of 10-year inflation-protection notes to raise cash. In addition, there is \$7,906 million of publicly-held securities maturing October 15, 20XX.

In addition to the public holdings, Federal Reserve Banks hold \$327 million of the maturing securities for their own accounts, which may be exchanged for additional amounts of the new securities.

The maturing securities held by the public include \$584 million held by

Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D.C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights. HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 10-YEAR INFLATION-PROTECTION NOTES TO BE ISSUED

October 2, 20XX	
Offering Amount	\$5,500 million
Description of Offering:	
Term and type of security.	10-year inflation-protection notes
Series	D-20XX
CUSIP number	912XXX XX X
Auction date	October 9, 20XX
Issue date	October 15, 20XX
Dated date	October 15, 20XX
Maturity date	October 15, 20XX
Interest Rate	Determined based on the highest accepted bid

Real yield	Determined at auction
Interest payment dates.	April 15 and October 15
Minimum bid amount.	\$1,000
Multiples	\$1,000
Accrued interest payable by investor.	None
Premium or discount	Determined at auction

STRIPS Information:

Minimum amount required.	Determined at auction
Corpus CUSIP number.	912XXX XX X

Due dates and CUSIP numbers for additional TINTs:

912XXX

April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X
April 15, 20XX	XX X
October 15, 20XX	XX X

Submission of Bids:

Noncompetitive bids: Will be accepted in full up to \$5,000,000 at the highest accepted yield.

Competitive bids:

(1) Must be expressed as a real yield with three decimals, e.g., 3.120%.

(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is \$___ billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield: 35% of public offering

Maximum Award: 35% of public offering

Receipt of Tenders:

Noncompetitive tenders: Prior to 12:00 noon Eastern Daylight Saving time on auction day.

Competitive tenders: Prior to 1:00 p.m. Eastern Daylight Saving time on auction day.

Payment Terms: Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date.

Indexing Information:

CPI Base Reference Period: 19XX-XX

Ref CPI 10/15/20XX: XXX.XXXXX

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