

DEPARTMENT OF THE TREASURY**Fiscal Service****31 CFR Part 358****Regulations Governing CUBES
(Coupons Under Book-Entry
Safekeeping)**

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

ACTION: Final rule.

SUMMARY: The Department of the Treasury (Department or Treasury) is issuing in final form an amendment to its regulations governing the CUBES (Coupons Under Book-Entry Safekeeping) program. The amendment provides a method to convert United States Treasury bearer securities that have been stripped of all non-callable coupons (stripped bearer corpora) to book-entry accounts. Stripped bearer corpora will be held in BECCS (Bearer Corpora Conversion System). Stripped coupons will continue to be held in CUBES. The amendment benefits investors in two ways: First, conversion of bearer securities to book-entry form provides a safe alternative to storage and accounting burdens associated with physical storage, and second, conversion eliminates the risk of loss or destruction of physical securities.

EFFECTIVE DATE: March 6, 1998.

FOR FURTHER INFORMATION CONTACT: Maureen Parker, Director, Division of Securities Systems, Bureau of the Public Debt (304) 480-7761; Susan Klimas, Attorney-Adviser, Office of the Chief Counsel, Bureau of the Public Debt (304) 480-5192; Edward C. Gronseth, Deputy Chief Counsel, Office of the Chief Counsel, Bureau of the Public Debt (304) 480-5192.

SUPPLEMENTARY INFORMATION: This final rule amends the general regulations governing CUBES by adding a new program, BECCS, that provides for the conversion of United States Treasury stripped bearer corpora to book-entry.

To reflect the expanded scope of part 358, the Department has changed its title to Regulations Governing Book-Entry Conversion of Detached Bearer Coupons and Bearer Corpora. The amendment does the following:

(a) eliminates the Appendix and moves the terms and conditions formerly contained in the Appendix into the part;

(b) updates the terms and conditions governing conversions of coupons that occur after the effective date of this rule;

(c) provides the terms and conditions for the conversion of bearer corpora to BECCS;

(d) eliminates provisions of the regulations that refer to the maintenance of CUBES after conversion; and

(e) shortens the notice requirement for openings of the CUBES program from two months to not less than 30 calendar days.

Previously, in order to submit bearer coupons for conversion to CUBES, a depository institution was required to sign an "Agreement to the Terms and Conditions Governing CUBES". This rule deletes the requirement for individual written agreements. The written agreements will continue to apply to the conversion of coupons submitted under openings of the CUBES program prior to the effective date of this rule.

The provisions formerly contained in the written agreement have been updated and are now contained in the part. Some of the provisions applied to systems which are obsolete, and have been deleted. Provisions that applied to the maintenance of CUBES after conversion have been eliminated as redundant, since, after conversion to book-entry, CUBES and BECCS are maintained in the commercial book-entry system (also referred to as the Treasury Reserve/Automated Debt Entry System or TRADES) governed by the provisions of 31 CFR part 357, subpart B. Among the provisions eliminated as redundant are those covering the fees for transfers occurring after conversion.

With BECCS Treasury will accept for conversion United States Treasury bearer corpora, extending book-entry conversion to include all United States Treasury detached bearer coupons and bearer corpora. A bearer corpus that is subject to call and that is submitted with all associated callable coupons will be transferable within BECCS. The associated callable coupons will be linked with the BECCS security. If a callable bearer corpus is submitted minus one or more associated callable coupons, the corpus will be converted to a non-transferable book-entry security within BECCS, and each callable coupon submitted will be converted to a non-transferable coupon within CUBES.

In the event that the United States suffers a loss as a result of a missing callable coupon, the submitting depository institution will be required to indemnify the United States against the loss. The indemnification will only apply in the event that a security is called. Indemnification is consistent with the current policy of redemption of

called bearer instruments missing associated callable coupons.

Fees will be charged for the conversion of detached bearer coupons and bearer corpora. A notice of applicable fees will be published in the **Federal Register**. A separate fee will be charged for each coupon and each corpus conversion transaction processed. A corpus submitted with all associated callable coupons will be charged one conversion transaction fee. A corpus submitted minus one or more associated callable coupons will be charged a transaction fee for the conversion of the corpus and a transaction fee for each separate callable coupon converted. Each non-callable coupon submitted will be charged a conversion transaction fee. The fee for any coupon or corpus that is rejected by the Department, for whatever reason, is non-refundable.

The CUBES system has been in existence for a number of years and participants are familiar with the system and its requirements. Accordingly, a two month notice is no longer considered necessary. The notice requirement for openings of the CUBES and BECCS systems has been reduced to not less than 30 calendar days prior to the opening.

Procedural Requirements

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

This final rule relates to matters of public contract and procedures for U.S. securities. Accordingly, pursuant to 5 U.S.C. 553 (a) (2), the notice, public comment and delayed effective date provisions of the Administrative Procedure Act do not apply.

As 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 are no collections of information contained in this final rule. Therefore, the Paperwork Reduction Act does not apply.

List of Subjects in 31 CFR Part 358

Federal Reserve System, Government securities.

Dated: March 3, 1998.

Donald V. Hammond,

Acting Fiscal Assistant Secretary.

For the reasons set out in the preamble, 31 CFR part 358 is revised to read as follows:

**PART 358—REGULATIONS
GOVERNING BOOK-ENTRY
CONVERSION OF DETACHED
BEARER COUPONS AND BEARER
CORPORA**

Sec.

- 358.0 Applicability.
- 358.1 Definitions.
- 358.2 Governing regulations.
- 358.3 Securities not eligible for conversion.
- 358.4 Transferability.
- 358.5 Submissions of detached bearer coupons and bearer corpora.
- 358.6 Delivery of detached bearer coupons and bearer corpora.
- 358.7 Fees for conversion transactions.
- 358.8 Crediting of amounts less than one dollar.
- 358.9 Authority of depository institution.
- 358.10 Adjustments to or rejection of securities.
- 358.11 Audit and verification of securities.
- 358.12 Separate maintenance of accounts.
- 358.13 Processing against master accounts.
- 358.14 Program prohibitions.
- 358.15 Authority of Federal Reserve Banks.
- 358.16 Limitation of liability.
- 358.17 Indemnification.
- 358.18 Waiver of regulations.
- 358.19 Supplements, amendments or revisions.

Authority: 12 U.S.C. 391; 31 U.S.C. Ch. 31.

§ 358.0 Applicability.

(a) These regulations apply to the conversion of United States Treasury detached bearer coupons and bearer corpora to book-entry form. These instruments are accepted from depository institutions for conversion under the Coupons Under Book Entry Safekeeping program (CUBES) and Bearer Corpora Conversion System (BECCS) program during specified time periods. The Department of the Treasury (Department or Treasury) will determine the time periods during which detached bearer coupons and bearer corpora will be accepted for conversion into book-entry form, and the fees applicable to conversion. The time periods and fees will be announced in the **Federal Register** no less than 30 calendar days prior to the date such instruments may be presented. Presentment shall be to the Federal Reserve Bank of New York in accordance with a schedule provided by the Federal Reserve Bank of New York.

(b) For coupons converted after the effective date of this rule, these regulations supersede the terms and conditions governing CUBES set forth in the written "Agreements to the Terms and Conditions Governing CUBES" signed by those depository institutions that previously participated in the CUBES program.

(c) Depository institutions that submit detached bearer coupons and bearer corpora are deemed to agree to the terms

and conditions set forth in this part and any other requirements that may be prescribed by the Department or the Federal Reserve Bank of New York.

§ 358.1 Definitions.

In this part, unless the context indicates otherwise:

BECCS refers to the Treasury's Bearer Corpora Conversion System. A BECCS security refers to a United States Treasury definitive bearer bond held in BECCS.

Callable refers to a United States Treasury bond subject to call, at the option of the Secretary, before maturity in accordance with the terms and conditions of its offering. Coupons associated with a callable bond that are due after the date upon which the bond is subject to call are callable coupons.

Corpus (plural corpora) refers to the principal portion of a United States Treasury definitive bearer bond.

Coupon refers to a definitive bearer interest instrument associated with a United States Treasury definitive bearer bond.

CUBES refers to the Treasury's Coupons Under Book-Entry Safekeeping program. A CUBES security is a definitive coupon detached from a United States Treasury bond and held in CUBES.

Depository institution means an entity described in section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)).

Federal Reserve Bank or Reserve Bank means a Federal Reserve Bank or Branch.

Non-callable refers to a United States Treasury bond not subject to call before maturity. Non-callable coupons are coupons associated with a non-callable bond, and coupons associated with a callable bond that are due on or before the date upon which the callable bond is subject to call.

Non-transferable means that the ownership of a security held in BECCS or CUBES may not be transferred, pursuant to the provisions of section 358.4 of this part.

Transferable means that the ownership of a security held in BECCS or CUBES may be transferred, pursuant to the provisions of § 358.4 of this part.

§ 358.2 Governing regulations.

CUBES and BECCS securities are deemed to be securities for purposes of, and upon their conversion to book-entry are governed by, subparts A, B, and D of part 357 of this chapter.

Notwithstanding the provisions of part 357 of this chapter, certain CUBES and BECCS securities are non-transferable, pursuant to § 358.4 of this part.

§ 358.3 Securities not eligible for conversion.

(a) Detached bearer coupons and bearer corpora that are submitted within 30 days of their maturity date or, if the call provision has been invoked, within 30 days of their call date, will not be accepted for conversion.

(b) Bearer corpora with a maturity date on or before November 15, 1998, will not be accepted for conversion.

§ 358.4 Transferability.

In order for a callable corpus to be eligible for conversion to a transferable BECCS security all associated callable coupons must be submitted with the corpus. These callable coupons will be linked with the corpus within BECCS when converted. Once the coupons are linked to the corpus, they may not be separately transferred. If all of the callable coupons associated with the corpus are not submitted with the corpus, the corpus will be converted to a non-transferable BECCS security, and the remaining callable coupons submitted with the corpus will be converted to individual non-transferable CUBES securities. A corpus that is not subject to call will be converted to a transferable BECCS security. Non-callable coupons will be converted to transferable CUBES securities.

§ 358.5 Submissions of detached bearer coupons and bearer corpora.

(a) Detached bearer coupons and bearer corpora must be submitted to the Federal Reserve Bank of New York in accordance with Federal Reserve Bank of New York procedures and must be accompanied by an approved form, executed by an authorized officer of the submitting depository institution.

(b) Until verified by the Department, submitted detached bearer coupons and bearer corpora will be subject to rejection or adjustment.

§ 358.6 Delivery of detached bearer coupons and bearer corpora.

The depository institution shall bear the expense and assume the risk of loss associated with the delivery of the detached bearer coupons and bearer corpora to the Federal Reserve Bank of New York. The United States shall bear the expense and assume the risk of loss associated with the delivery of the submitted detached bearer coupons and bearer corpora between the Federal Reserve Bank of New York and the Department. The depository institution shall bear the expense and assume the risk of loss associated with the delivery of any detached bearer coupons and bearer corpora that are returned to the depository institution.

§ 358.7 Fees for conversion transactions.

The depository institution will pay a fee for each CUBES and BECCS conversion transaction processed. The fees for conversion transactions will be published in the **Federal Register** prior to the start of the initial conversion period. A corpus subject to call that is submitted with all of its associated callable coupons will be considered a single conversion transaction and will be charged a single fee. If one or more of the associated callable coupons are not submitted with the corpus, the conversion of each callable coupon submitted and the corpus will be considered a separate conversion transaction and will be charged a separate fee. Each non-callable coupon submitted will be considered a separate conversion transaction and will be charged a separate fee. The fee for any conversion transaction that is rejected by the Department for any reason is non-refundable.

§ 358.8 Crediting of amounts less than one dollar.

Upon the conversion of coupons to CUBES, amounts of less than one dollar in the aggregate per CUBES CUSIP will not be credited to the account of the depository institution.

§ 358.9 Authority of depository institution.

(a) Submission of detached bearer coupons and bearer corpora to the Federal Reserve Bank of New York for conversion to book-entry accounts under the CUBES and BECCS programs constitutes a representation by the depository institution that it has authority to convert the coupons and corpora to book-entry form.

(b) Neither the Department nor the Federal Reserve Bank of New York shall be liable if the depository institution has no authority to convert the detached bearer coupons and bearer corpora to book-entry form or to take other actions in respect to book-entry accounts in CUBES and BECCS.

(c) Neither the Department nor the Federal Reserve Bank of New York shall be liable for any loss incurred by the depository institution which may result from the failure of the depository institution to properly follow the procedures provided by the Federal Reserve Bank of New York.

§ 358.10 Adjustments to or rejection of securities.

In the event that the Department makes an adjustment to or rejects all or part of the submitted securities, the Federal Reserve Bank of New York will instruct the depository institution to transfer CUBES or BECCS securities of

the same payment date and face value from the depository institution's account to the Federal Reserve Bank of New York. If no such CUBES or BECCS securities exist in the depository institution's account, the Federal Reserve Bank of New York will instruct the depository institution as to how an adjustment will be made. In the event that the depository institution fails to comply with the instructions of the Federal Reserve Bank of New York within five (5) business days of receipt of the instructions, the Federal Reserve Bank of New York reserves the right to debit the master account of the depository institution for the face value of the rejected detached bearer coupons and bearer corpora. By the submission of the detached bearer coupons and bearer corpora, the depository institution is deemed to agree to this debit.

§ 358.11 Audit and verification of securities.

After processing and initial verification, the Federal Reserve Bank of New York will credit the securities accepted to the depository institution's book-entry account, establishing a securities entitlement in TRADES pursuant to 31 CFR part 357 subpart B. Final verification by the Department will be accomplished within ten (10) business days of receipt of the detached bearer coupons and bearer corpora at the Department. The depository institution shall not trade in the securities prior to final verification. If at any time after this ten (10) day period the Department determines that the security was improperly credited to the CUBES or BECCS account of the depository institution, such as in the case of a previously undetected counterfeit security, the Department reserves the right to adjust the CUBES or BECCS account.

§ 358.12 Separate maintenance of accounts.

CUBES and BECCS accounts will be maintained separately from accounts maintained in Treasury's STRIPS (Separate Trading of Registered Interest and Principal of Securities) program.

§ 358.13 Processing against master accounts.

The depository institution agrees that all charges associated with its CUBES and BECCS accounts, including the conversion fee, will be processed against its master account on the books of a Federal Reserve Bank.

§ 358.14 Program prohibitions.

Once detached bearer coupons and bearer corpora have been converted to

book-entry form, reconversion to physical form is prohibited. The reconstitution of a BECCS security with CUBES securities or any combination of Treasury obligations is prohibited.

§ 358.15 Authority of Federal Reserve Banks.

The Federal Reserve Bank of New York is hereby authorized as fiscal agent of the United States to perform functions with respect to this part.

§ 358.16 Limitation of liability.

Except as otherwise provided by regulation, circular, or written agreement, the Federal Reserve Bank of New York shall be liable in connection with any action taken or omission by it only for its failure to exercise ordinary care. In no event shall the Federal Reserve Bank of New York or the Department have or assume any responsibility to any party except the sending and receiving depository institutions involved in a CUBES or BECCS transaction. In no event shall the Federal Reserve Bank of New York or the Department assume any responsibility, in connection with a CUBES or BECCS transaction, for the insolvency, neglect, misconduct, mistake or default of another bank or person, including the immediate participants.

§ 358.17 Indemnification.

The submitting depository institution shall indemnify the United States against any loss which may occur as a result of the conversion of a bearer corpus missing one or more associated callable coupons.

§ 358.18 Waiver of regulations.

The Secretary of the Treasury reserves the right, in the Secretary's discretion, to waive or modify any provision(s) of these regulations in any particular case or class of cases for the convenience of the United States or in order to relieve any person(s) of unnecessary hardship, if such action is not inconsistent with law, does not impair any existing rights, and the Secretary is satisfied that such action will not subject the United States to any substantial expense or liability.

§ 358.19 Supplements, amendments or revisions.

The Secretary may, at any time, prescribe additional supplemental, amendatory or revised regulations with respect to CUBES and BECCS.

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