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and the former name. It must be supported by satisfactory proof of the change of name.

(d) *Legal succession.* A bond registered in the name of a company which has been succeeded by another company as the result of a merger, consolidation, incorporation, reincorporation, conversion, reorganization, or which has been lawfully succeeded in any manner whereby the business or activities of the original organization are continued without substantial change, will be paid to or reissued in the name of the successor upon an appropriate request on its behalf, supported by satisfactory evidence of successorship.

(e) *Conversion to book-entry.* Although not required, any owner of tax and loss bonds held in registered form after the effective date of this regulation, may submit those bonds to the Division of Special Investments, for conversion to book-entry form.

(Approved by the Office of Management and Budget under control number 1535-0127)

§ 343.5 Taxation.

Tax and loss bonds will be exempt from all taxation now or hereafter imposed on the principal by any state or any possession of the United States or of any local taxing authority.

PART 344—U.S. TREASURY SECURITIES—STATE AND LOCAL GOVERNMENT SERIES

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APPENDIX A TO PART 344—EARLY REDEMPTION MARKET CHARGE FORMULAS AND EXAMPLES FOR SUBSCRIPTIONS FROM DECEMBER 28, 1976, THROUGH OCTOBER 27, 1996

APPENDIX B TO PART 344—FORMULA FOR DETERMINING REDEMPTION VALUE FOR SECURITIES SUBSCRIBED FOR AND EARLY-REDEEMED ON OR AFTER OCTOBER 28, 1996

AUTHORITY: 26 U.S.C. 141 note; 31 U.S.C. 3102, 3103, 3104, and 3121.

SOURCE: 65 FR 55405, Sept. 13, 2000, unless otherwise noted.

Subpart A—General Information

SOURCE: 70 FR 37911, June 30, 2005, unless otherwise noted.

§ 344.0 What does this part cover?

(a) *What is the purpose of the SLGS securities offering?* The Secretary of the Treasury (the Secretary) offers for sale non-marketable State and Local Government Series (SLGS) securities to provide issuers of tax-advantaged bonds with investments from any eligible source of funds (as defined in § 344.1) to assist issuers in complying with applicable provisions of the Internal Revenue Code.

(b) *What types of SLGS securities are governed by this part?* This part governs the following SLGS securities:

(1) *Time Deposit securities*—may be issued as:

(i) Certificates of indebtedness;

(ii) Notes; or

(iii) Bonds.

(2) *Demand Deposit securities*—may be issued as certificates of indebtedness.

(c) *In what denominations are SLGS securities issued?* SLGS securities are issued in the following denominations:

(1) *Time Deposit securities*—a minimum amount of \$1,000, or in any larger whole dollar amount; and

(2) *Demand Deposit securities*—a minimum amount of \$1,000, or in any larger amount, in any increment.

(d) *How long is the offering in effect?* The offering continues until terminated by the Secretary.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15447, Mar. 4, 2024]

§ 344.1 What special terms do I need to know to understand this part?

As appropriate, the definitions of terms used in this part are those found in the relevant portions of the Internal Revenue Code and the Income Tax Regulations.

Fiscal Service's Web site refers to <http://www.slgs.gov>.

Business day(s) means any day other than a Saturday or Sunday that the Federal Reserve Bank of New York is open for business.

Cost-free option means the use of any provision(s) in the SLGS program to exploit movements in interest rates, including, but not limited to, those designed to provide marginal flexibility to issuers in structuring their SLGS investments.

Current Treasury borrowing rate means the prevailing market rate, as determined by Treasury, for a Treasury security with the specified period to maturity. In the case where SLGS rates are needed for maturities currently not issued by Treasury, at our discretion, suitable proxies for Treasury securities and/or a rate setting methodology, as determined by the Secretary, may be used to derive a current Treasury borrowing rate. At any time that the Secretary establishes such proxies or a rate-setting method or determines that the methodology should be revised, we will make an announcement.

Day(s) means calendar day(s).

Eligible source of funds means:

(1) Any amounts that are gross proceeds of an issue of tax-advantaged bonds or are reasonably expected to become gross proceeds of such an issue of tax-advantaged bonds;

(2) Any amounts that formerly were gross proceeds of a tax-advantaged bond issue, but no longer are treated as gross proceeds of such issue as a result of the operation of the universal cap on the maximum amount treated as gross proceeds under 26 CFR 1.148-6(b)(2);

(3) Amounts held or to be held together with gross proceeds of one or more tax-advantaged bond issues in a refunding escrow, defeasance escrow, parity debt service reserve fund, or commingled fund (as defined in 26 CFR 1.148-1(b));

(4) Proceeds of a bond issue that is not an issue of tax-advantaged bonds but that refunds, or is refunded by, an issue of tax-advantaged bonds; or

(5) Any other amounts that are subject to yield limitations under the rules applicable to tax-advantaged bonds under the Internal Revenue Code (see title 26 of the U.S. Code and 26 CFR chapter I).

Governmental purpose, under this part, means the issuer's expected use of the invested funds, including but not limited to, financing a construction project, repaying a prior issue of bonds, or funding a debt service reserve. Such use must be consistent with the purposes of the Income Tax Regulations in 26 CFR part 1 under section 148 of the Internal Revenue Code. Generating gain on the proceeds of a bond issue through the use of a cost-free option in purchasing and redeeming SLGS is not a permitted governmental purpose.

Issuer refers to the government body or other entity that issues tax-advantaged bonds, or to a conduit borrower.

Marketable security, with reference to the types of securities that issuers are permitted to purchase with an eligible source of funds, means any security other than a SLGS security. Examples of marketable securities include Treasury securities (other than SLGS securities) and Federal agency securities.

SLGS rate means the current Treasury borrowing rate, less one basis point, as released daily by Treasury in a SLGS rate table. If the current Treasury borrowing rate, together with the one basis point adjustment, results in a negative rate, such corresponding SLGS rate will be set at zero.

SLGS rate table means a compilation of SLGS rates available for a given day.

Tax-advantaged bond means tax-advantaged bond as defined in 26 CFR 1.150-1(b).

"We," "us," or "the Secretary" refers to the Secretary and the Secretary's delegates at the Department of the

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Treasury (Treasury), Bureau of the Fiscal Service (Fiscal Service). The term also extends to any fiscal or financial agent acting on behalf of the United States when designated to act by the Secretary or the Secretary's delegates.

Yield on an investment means “yield” as computed under 26 CFR 1.148–5.

You or *your* refers to a SLGS program user or a potential SLGS program user.

[70 FR 37911, June 30, 2005, as amended at 77 FR 33635, June 7, 2012; 89 FR 15447, Mar. 4, 2024]

§ 344.2 What general provisions apply to SLGS securities?

(a) *What other regulations apply to SLGS securities?* SLGS securities are subject to:

(1) The electronic transactions and funds transfers provisions for United States securities, part 370 of this subchapter, “Electronic Transactions and Funds Transfers Related to U.S. Securities”; and

(2) The appendix to subpart E to part 306 of this subchapter, for rules regarding computation of interest.

(b) *Where are SLGS securities held?* SLGS securities are issued in book-entry form on the books of Fiscal Service.

(c) *Besides Fiscal Service, do any other entities administer SLGS securities?* The Secretary may designate selected Federal Reserve Banks and Branches, as fiscal agents of the United States, to perform services relating to SLGS securities.

(d) *Can SLGS securities be transferred?* No. SLGS securities issued as any one type, *i.e.*, Time Deposit or Demand Deposit, cannot be transferred for other securities of that type or any other type. Transfer of securities by sale, exchange, assignment, pledge, or otherwise is not permitted.

(e) *What certifications must the issuer or its agent provide?*—(1) *Agent certification.* When a commercial bank or other agent submits a subscription, or performs any other transaction, on behalf of the issuer, it must certify that it is acting under the issuer's specific authorization. Ordinarily, evidence of such authority is not required.

(2) *Yield certifications*—

(i) *Purchase of SLGS securities.* Upon submitting a subscription, or performing any other transaction for a SLGS security, a subscriber must certify that:

(A) *Marketable securities to SLGS securities.* If the issuer is purchasing a SLGS security with any amount received from the sale or redemption (at the option of the holder) before maturity of any marketable security, the yield on such SLGS security does not exceed the yield at which such marketable security was sold or redeemed; and

(B) *Time deposit securities to SLGS securities.* If the issuer is purchasing a SLGS security with any amount received from the redemption before maturity of a Time Deposit security (other than a zero interest Time Deposit security), the yield on the SLGS security being purchased does not exceed the yield that was used to determine the amount of redemption proceeds for such redeemed Time Deposit security.

(ii) *Early redemption of SLGS securities.* Upon submission of a request for redemption before maturity of a Time Deposit security (other than a zero interest Time Deposit security) subscribed for on or after August 15, 2005, the subscriber must certify that no amount received from the redemption will be invested at a yield that exceeds the yield that is used to determine the amount of redemption proceeds for such redeemed Time Deposit security.

(3) *Duration certification.* For each subscription to purchase a Time Deposit SLGS security, the subscriber must certify that the term of the SLGS security subscribed for is no longer than is reasonably necessary to accomplish the issuer's governmental purpose for its purchase of the SLGS security.

(4) *Eligibility certification.* For each subscription to purchase a SLGS security, the subscriber must certify that if, at any point while SLGS securities are outstanding, the issuer becomes ineligible to purchase SLGS securities or the funds used to purchase SLGS securities are no longer an eligible source of funds, the issuer or agent thereof must, as soon as practicable, notify

Treasury of such ineligibility. Such notification will be deemed to be a request for redemption of those outstanding Demand Deposit securities that are affected by the ineligibility.

(f) *What are some practices involving SLGS securities that are not permitted?*—

(1) *Impermissible transactions.* (i) To use the SLGS program to create a cost-free option (while the examples in paragraph (f)(2) of this section may specifically use marketable securities for illustration, creating a cost-free option via any means is prohibited);

(ii) To purchase a SLGS security with any amount received from the sale or redemption (at the option of the holder) before maturity of any marketable security, if the yield on such SLGS security exceeds the yield at which such marketable security is sold or redeemed;

(iii) To invest any amount received from the redemption before maturity of a Time Deposit security (other than a Zero Percent Time Deposit security) at a yield that exceeds the yield that is used to determine the amount of redemption proceeds for such Time Deposit security; or

(iv) To purchase a SLGS security with a maturity that is longer than is reasonably necessary to accomplish the issuer's governmental purpose for its purchase of the SLGS security or to purchase a SLGS security with an intention to redeem such SLGS security earlier than is reasonably necessary to accomplish the issuer's governmental purpose for its purchase of the SLGS security.

(2) *Examples*—(i) *Simultaneous purchase of marketable and SLGS securities.* In order to fund an escrow for an advance refunding, the issuer simultaneously enters into a purchase contract for marketable securities and subscribes for SLGS securities, such that either purchase is sufficient to pay the cash flows on the outstanding bonds to be refunded, but together, the purchases are greatly in excess of the amount necessary to pay the cash flows. The issuer plans that, if interest rates decline during the period between the date of starting a SLGS subscription and the requested date of issuance of SLGS securities, the issuer will enter into an offsetting agreement to

sell the marketable securities and use the bond proceeds to purchase SLGS securities to fund the escrow. If, however, interest rates do not decline in that period, the issuer plans to use the bond proceeds to purchase the marketable securities to fund the escrow and cancel the SLGS securities subscription. This practice violates the prohibition on cancellation under §344.5(c) or §344.8(c), and no exception or waiver would be granted under this part because the ability to cancel in these circumstances would result in the SLGS program being used to create a cost-free option. In addition, this practice is prohibited under paragraph (f)(1)(i) of this section.

(ii) *Sale of marketable securities conditioned on interest rates.* The existing escrow for an advance refunding contains marketable securities which produce a negative arbitrage. In order to reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities at a yield higher than the yield on the existing escrow, but less than the permitted yield. At the same time, the issuer agrees to sell the marketable securities in the existing escrow to a third party and use the proceeds to purchase SLGS securities if interest rates decline between the date of subscribing for SLGS securities and the requested date of issuance of SLGS securities. The marketable securities would be sold at a yield which is less than the yield on the SLGS securities purchased. The issuer and the third party further agree that if interest rates increase during this period, the issuer will cancel the SLGS securities subscription. This practice violates the prohibition on cancellation under §344.5(c) or §344.8(c), and no exception or waiver would be granted under this part because the ability to cancel in these circumstances would result in the SLGS program being used to create a cost-free option. In addition, this practice is prohibited under paragraphs (f)(1)(i) and (ii) of this section.

(iii) *Sale of marketable securities not conditioned on interest rates.* The facts are the same as in paragraph (f)(2)(ii) of this section, except that in this case, the agreement entered into by the issuer with a third party to sell the

marketable securities in order to obtain funds to purchase SLGS securities is not conditioned upon changes in interest rates on Treasury securities. This practice violates the yield gain prohibition in paragraph (f)(1)(ii) of this section and is prohibited.

(iv) *Simultaneous subscription for SLGS securities and sale of option to purchase marketable securities.* The issuer holds a portfolio of marketable securities in an account that produces negative arbitrage. To reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities for purchase in 45 days. At the same time, the issuer sells an option to purchase the portfolio of marketable securities. If interest rates increase, the holder of the option will not exercise its option and the issuer will cancel the SLGS securities subscription. On the other hand, if interest rates decline, the option holder will exercise the option and the issuer will use the proceeds to purchase SLGS securities. This practice violates the prohibition on cancellation under §344.5(c) or §344.8(c), and no exception or waiver would be granted under this part because the ability to cancel in these circumstances would result in the SLGS program being used to create a cost-free option. In addition, this practice is prohibited under paragraph (f)(1)(i) of this section.

(v) *Early redemption of time deposit security and subsequent purchase of marketable security.* On February 6, 2006, an issuer purchases a Time Deposit security using an eligible source of funds from a debt service reserve fund. The Time Deposit security has a principal amount of \$7 million, an interest rate of 3.63 percent, and a maturity date of February 6, 2009. On March 1, 2007, the issuer submits a request to redeem the Time Deposit security on March 15, 2007. The yield used to determine the amount of redemption proceeds is 3.21 percent. On March 5, 2007, the issuer subscribes for the purchase, on March 15, 2007, of a second Time Deposit security. The issuer pays for the second Time Deposit security on March 15, 2007, with the redemption proceeds of the first Time Deposit security. The second Time Deposit security has an interest rate of 2.77 percent and a maturity date of April 16, 2007. On April 9,

2007, the issuer enters into a contract to purchase, on April 16, 2007, a ten-year, marketable Treasury security using the principal and interest to be received at the maturity of the second Time Deposit security. The marketable Treasury security has a yield of 4.02 percent. This transaction satisfies the yield limitation in paragraph (f)(1)(iii) of this section because:

(A) The yield on the second Time Deposit security does not exceed the yield that is used to determine the amount of redemption proceeds for the first Time Deposit security; and

(B) The second Time Deposit security is not redeemed before maturity and therefore the re-investment of the principal and interest received on the second Time Deposit security is not subject to the yield limitation in paragraph (f)(1)(iii) of this section. This transaction constitutes a permissible use of the SLGS program.

(vi) *Early redemption of time deposit security and simultaneous purchase of marketable security.* The facts are the same as in paragraph (f)(2)(v) of this section, except that the issuer subscribes for the second Time Deposit security on March 1, 2007, and enters into the contract to purchase the marketable Treasury security on March 1, 2007. This transaction, if permitted, would enable the issuer to redeem the first Time Deposit security at a yield that is held constant for 12 hours based on the “current Treasury borrowing rate” for March 1, 2007, and to re-invest the redemption proceeds based on a market yield that may fluctuate during that 12-hour period. The use of the SLGS program in this manner would create a cost-free option. Accordingly, this transaction is impermissible under paragraph (f)(1)(i) of this section.

(vii) *Purchase of SLGS security with maturity longer than reasonably necessary.* An issuer may purchase SLGS securities to facilitate compliance with arbitrage yield restrictions for investments of various types of proceeds of tax-advantaged bonds, including investments in refunding escrow funds, bond debt service reserve funds, or project construction funds, respectively. The determination of whether a maturity for a SLGS security is longer than is reasonably necessary depends

on the issuer's governmental purpose for the issuance. Thus, the maturities of SLGS securities invested in a refunding escrow fund are reasonably necessary if they are no longer than those necessary to accomplish the defeasance of the underlying refunded bonds until the applicable redemption date or retirement date of the refunded bonds. Maturities of SLGS securities invested in a project construction fund are reasonably necessary if they are no longer than the reasonably expected construction period for the financed project, and early redemptions of such securities are reasonably necessary if they are reasonably related to construction draws for the financed project. Maturities of SLGS securities invested in a debt service reserve fund are reasonably necessary if they are no longer than the earlier of the permitted term of investments in that reserve fund under the bond documents or the term of the secured bonds. Early redemptions of SLGS securities with reasonably necessary maturities are permissible for the above bona fide business reasons, including changes in market interest rates. By contrast, the purchase of SLGS securities with maturities that are longer than the reasonably necessary maturities described above and associated early redemptions of those SLGS securities to obtain the funds within periods that would correspond to an issuer's bona fide governmental purpose for a SLGS investment constitute impermissible practices under paragraph (f)(1)(iv) of this section. Thus, for example, if an issuer purchases SLGS securities to fund a refunding escrow to be used to defease and call refunded bonds at the first call date in five years, the issuer's purchase of SLGS securities with maturities beyond that five-year period and corresponding early redemptions of those SLGS securities within that five-year period constitute an impermissible use of the SLGS program.

(g) *When and how do I pay for SLGS securities?* You must submit full payment for each subscription to Fiscal Service no later than 4 p.m., Eastern time, on the issue date. Submit payments by the Fedwire funds transfer system with credit directed to the Treasury's General Account. Fiscal

Service's American Bankers Association (ABA) Routing Number can be found on Fiscal Service's website under the SLGS frequently asked questions (FAQs).

(h) *What happens if I need to make an untimely change or do not settle on a subscription?* An untimely change to a subscription can only be made in accordance with §344.2(n) of this part. The penalty imposed for failure to make settlement on a subscription that you submit will be to render you ineligible to subscribe for SLGS securities for six months beginning on the date the subscription is withdrawn, or the proposed issue date, whichever occurs first.

(1) *Upon whom is the penalty imposed?* If you are the issuer, the penalty is imposed on you unless you provide the Taxpayer Identification Number of the conduit borrower that is the actual party failing to make settlement of a subscription. If you provide the Taxpayer Identification Number for the conduit borrower, the six-month penalty will be imposed on the conduit borrower.

(2) *What occurs if Treasury exercises the option to waive the penalty?* If you settle after the proposed issue date and we determine that settlement is acceptable on an exception basis, we will waive, under §344.2(n), the six-month penalty under paragraph (h) of this section. You shall be charged a late payment assessment. The late payment assessment equals the amount of interest that would have accrued on the SLGS securities from the proposed issue date to the date of settlement plus an administrative fee of \$100 per subscription, or such other amount as we may publish in the FEDERAL REGISTER. We will not issue SLGS securities until we receive the late payment assessment, which is due on demand.

(i) *What happens at maturity?* Upon the maturity of a security, we will pay the owner the principal amount and interest due. A security scheduled for maturity on a non-business day will be redeemed on the next business day.

(j) *How will I receive payment?* We will make payment by the Automated Clearing House (ACH) method for the owner's account at a financial institution as designated by the owner. We

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may use substitute payment procedures, instead of ACH, if we consider it to be necessary. Any such action is final.

(k) *How do I contact Fiscal Service?* Fiscal Service's contact information is posted on Fiscal Service's Web site.

(l) *Will the offering be changed during a debt limit or disaster contingency?* We reserve the right to change or suspend the terms and conditions of the offering (including provisions relating to subscriptions for, and issuance of, SLGS securities; interest payments; early redemptions; and rollovers) at any time the Secretary determines that the issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit, or that a disaster situation exists. We will announce such changes by any means that the Secretary deems appropriate.

(m) *What are some of the rights that Treasury reserves in administering the SLGS program?* We may decide, in our sole discretion, to take any of the following actions. Such actions are final. Specifically, Treasury reserves the right:

(1) To reject any SLG Safe Application for Internet Access;

(2) To reject any electronic message or other message or request, including requests for subscription and redemption, that is inappropriately completed or untimely submitted;

(3) To refuse to issue any SLGS securities in any case or class of cases;

(4) To revoke the issuance of any SLGS securities and to declare the subscriber or the issuer ineligible thereafter to subscribe for securities under the offering if the Secretary deems that such action is in the public interest and any security is issued on the basis of an improper certification or other misrepresentation (other than as the result of an inadvertent error) or there is an impermissible transaction under § 344.2(f); or

(5) To review any transaction for compliance with this part, including requiring a subscriber or the issuer to provide additional information, and to determine an appropriate remedy under the circumstances.

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(n) *Are there any situations in which Treasury may waive these regulations?* We reserve the right, at our discretion, to waive or modify any provision of these regulations in any case or class of cases. We may do so if such action is not inconsistent with law and will not subject the United States to substantial expense or liability.

(o) *Are SLGS securities callable by Treasury?* No. Treasury cannot call a SLGS security for redemption before maturity.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15447, Mar. 4, 2024]

SLGSAFE® SERVICE

§ 344.3 What provisions apply to the SLG Safe Service?

(a) *What is the SLG Safe Service?* SLG Safe is a secure Internet site on the World Wide Web through which subscribers submit SLGS securities transactions. SLG Safe Internet transactions constitute electronic messages under 31 CFR part 370.

(b) *Is SLG Safe use mandatory?* Yes. Except as provided in paragraph (f)(3) or (f)(4) of this section, you must submit all transactions through SLG Safe.

(c) *What terms and conditions apply to SLG Safe?* The terms and conditions contained in the following documents, which may be downloaded from Fiscal Service's Web site and which may change from time to time, apply to SLG Safe transactions:

(1) SLG Safe Application for Internet Access and SLG Safe User Acknowledgment; and

(2) SLG Safe User's Manual.

(d) *Who can apply for SLG Safe access?* If you are an owner or a potential owner of SLGS securities, or act as a trustee or other agent of the owner, you can apply to Fiscal Service for SLG Safe access. Other potential users of SLG Safe include, but are not limited to, underwriters, financial advisors, and bond counsel.

(e) *How do I apply for SLG Safe access?* Submit to Fiscal Service a completed SLG Safe Application for internet Access, which is found on Fiscal Service's website.

(f) *What are the conditions of SLGSafe use?* If you are designated as an authorized user, on a SLGSafe application that we've approved, you must:

(1) Assume the sole responsibility and the entire risk of use and operation of your electronic connection;

(2) Agree that we may act on any electronic message to the same extent as if we had received a written instruction bearing the signature of your duly authorized officer;

(3) Submit electronic messages and other transaction requests exclusively through SLGSafe, except to the extent you establish to the satisfaction of Fiscal Service that good cause exists for you to submit such subscriptions and requests by other means; and

(4) Agree to submit transactions manually if we notify you that due to problems with hardware, software, data transmission, or any other reason, we are unable to send or receive electronic messages through SLGSafe.

(g) *When is the SLGSafe window open?* All SLGSafe subscriptions, requests for early redemption of Time Deposit securities, and requests for redemption of Demand Deposit securities must be received by Fiscal Service on business days no earlier than 10 a.m. and no later than 10 p.m., Eastern time. The official time is the date and time as shown on Fiscal Service's application server. Except as otherwise provided in §§ 344.5(d) and 344.8(d), all other functions may be performed during the extended SLGSafe hours, from 8 a.m. until 10 p.m., Eastern time.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15449, Mar. 4, 2024]

Subpart B—Time Deposit Securities

SOURCE: 70 FR 37911, June 30, 2005, unless otherwise noted.

§ 344.4 What are Time Deposit securities?

Time Deposit securities are issued as certificates of indebtedness, notes, or bonds.

(a) *What are the maturity periods?* The issuer must fix the maturity periods for Time Deposit securities, which are issued as follows:

(1) *Certificates of indebtedness that do not bear interest.* For certificates of in-

debtedness that do not bear interest, the issuer can fix a maturity period of not less than fifteen days and not more than one year.

(2) *Certificates of indebtedness that bear interest.* For certificates of indebtedness that bear interest, the issuer can fix a maturity period of not less than thirty days and not more than one year.

(3) *Notes.* For notes, the issuer can fix a maturity period of not less than one year and one day, and not more than ten years.

(4) *Bonds.* For bonds, the issuer can fix a maturity period of not less than ten years and one day, and not more than forty years.

(b) *How do I select the SLGS rate?* For each security, the issuer shall designate an interest rate that does not exceed the maximum interest rate shown in the daily SLGS rate table as defined in § 344.1.

(1) *When is the SLGS rate table released?* We release the SLGS rate table to the public by 10 a.m. Eastern time each business day or as soon as practicable thereafter. If the SLGS rate table is not available by 11 a.m. Eastern time on any given business day, the SLGS rate table for the preceding business day applies.

(2) *How do I lock-in a SLGS rate?* The applicable daily SLGS rate table for a SLGSafe subscription is the one in effect on the business day that you start the subscription process. This table is shown on Fiscal Service's Application server.

(3) *Where can I find the SLGS rate table?* The SLGS rate table can be obtained at Fiscal Service's Web site.

(c) *How are interest computation and payment dates determined?* Interest on a certificate of indebtedness is computed on an annual basis and is paid at maturity with the principal. Interest on a note or bond is paid semi-annually. The issuer specifies the first interest payment date, which must be at least thirty days and less than or equal to one year from the date of issue. The final interest payment date must coincide with the maturity date of the security. Interest for other than a full interest period is computed on the basis of a 365-day or 366-day year (for certificates of indebtedness) and on the basis of the

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exact number of days in the half-year (for notes and bonds). See the appendix to subpart E to part 306 of this subchapter for rules regarding computation of interest.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15449, Mar. 4, 2024]

§ 344.5 What other provisions apply to subscriptions for Time Deposit securities?

(a) *When is my subscription due?* The subscriber must set the issue date for the securities in the subscription. The issue date must be a business day. The issue date cannot be more than 60 days after the date we receive the subscription. If the subscription is for \$10 million or less, we must receive a subscription at least 5 days before the issue date. If the subscription is for over \$10 million, we must receive the subscription at least 7 days before the issue date.

Example 1 to paragraph (a): If SLGS securities totaling \$10 million or less will be issued on May 16th, we must receive the subscription no later than May 11th. If SLGS securities totaling more than \$10 million will be issued on May 16th, we must receive the subscription no later than May 9th. In all cases, if SLGS securities will be issued on May 16th, we will not accept the subscription before March 17th.

(b) *How do I start the subscription process?* A subscriber starts the subscription process by entering into SLGSafe the following information:

- (1) The issue date;
- (2) The total principal amount;
- (3) The issuer's name and Taxpayer Identification Number;
- (4) A description of the tax-advantaged bond issue;
- (5) Separately itemized securities to be purchased, specifying principal amount, maturity date, interest rate, and first interest payment date (in the case of notes and bonds) for each; and
- (6) The certifications required by § 344.2(e).

(c) *Under what circumstances can I cancel a subscription?* You cannot cancel a subscription unless you establish, to the satisfaction of Treasury, that the cancellation is required for reasons unrelated to the use of the SLGS program to create a cost-free option.

(d) *How do I change a subscription?* You can change a subscription on or before 3 p.m. Eastern time, on the issue date. Changes to a subscription are acceptable with the following exceptions:

(1) You cannot change the issue date; provided, however, you may change the issue date up to 7 days after the original issue date if you establish to the satisfaction of Treasury that such change is required as a result of circumstances that were unforeseen at the time of the subscription and are beyond the issuer's control (for example, a natural disaster);

(2) You cannot change the principal amount originally specified for any security in the subscription by more than ten percent;

(3) You cannot change an interest rate to exceed the maximum interest rate in the SLGS rate table that was in effect for a security of comparable maturity on the business day that you began the subscription process; and

(4) You cannot change the maturity date originally specified for any security in the subscription by more than 30 days for certificates of indebtedness, 6 months for notes, and 1 year for bonds.

(e) *How do I complete the subscription process?* The completed subscription must:

(1) Be dated and submitted electronically by an official authorized to make the purchase;

(2) Separately itemize securities specifying principal amount, maturity date, interest rate, and first interest payment date (in the case of notes and bonds) for each;

(3) Describe the bond issue. If the tax-advantaged bond issue referenced in paragraph (b)(4) of this section is, or will be, registered or disclosed in the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA[®]) system, describe the issue exactly as designated in the "issue description" field of EMMA[®], or successor system;

(4) Include the issuer's address;

(5) Include information on the financial institution that will transmit the funds for the purchase of the securities and information on the financial institution that will receive security principal and interest payments;

(6) Not be more than ten percent above or below the aggregate principal amount originally specified in the subscription and not be more than ten percent above or below the originally subscribed for amount for each individual security;

(7) Not deviate from the original subscribed for maturity date specified for any security in the subscription by more than 30 days for certificates of indebtedness, 6 months for notes, and 1 year for bonds;

(8) Include the information required under paragraph (b) of this section, if not already provided; and

(9) Include the certifications required by § 344.2(e).

(f) *When must I complete the subscription?* We must receive a completed subscription on or before 3 p.m. Eastern time on the issue date.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15449, Mar. 4, 2024]

§ 344.6 How do I redeem a Time Deposit security before maturity?

(a) *What is the minimum time a security must be held?* (1) Zero percent certificates of indebtedness of 16 to 29 days. A zero percent certificate of indebtedness of 16 to 29 days can be redeemed, at the owner's option, no earlier than 15 days after the issue date.

(2) *Certificates of indebtedness of 30 days or more.* A certificate of indebtedness of 30 days or more can be redeemed, at the owner's option, no earlier than 25 days after the issue date.

(3) *Notes or bonds.* A note or bond can be redeemed, at the owner's option, no earlier than 30 days after the issue date. Any request for redemption received within 14 days of the issue date will be rejected.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any whole dollar amount; however, a security balance of less than \$1,000 must be redeemed in total.

(c) *Do I have to submit a request for early redemption?* Yes. An official authorized to redeem the securities before maturity must submit an electronic request in SLGSafe. The request must show the Taxpayer Identification Number of the issuer, the security number, and the dollar amount of the

securities to be redeemed. Upon submission of a request for redemption before maturity of a security subscribed for on or after August 15, 2005, the request must include a yield certification under § 344.2(e)(2)(ii). Fiscal Service must receive the request no less than 14 days and no more than 60 days before the requested redemption date. You cannot submit a request for early redemption for a security which has not yet been issued and you cannot cancel a request once it has been submitted.

(d) *How do I calculate the amount of redemption proceeds for subscriptions on or after October 28, 1996?* For securities subscribed for on or after October 28, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Redemption value.* The remaining interest and principal payments are discounted by the current Treasury borrowing rate for the remaining term to maturity of the security redeemed. This may result in a premium or discount to the issuer depending on whether the current Treasury borrowing rate is unchanged, lower, or higher than the stated interest rate of the early-redeemed SLGS securities. There is no market charge for the redemption of zero interest Time Deposit securities subscribed for on or after October 28, 1996. Redemption proceeds in the case of a zero-interest security are a return of the principal invested. The formulas for calculating the redemption value under this paragraph, including examples of the determination of premiums and discounts, are set forth in appendix B of this part.

(e) *How do I calculate the amount of redemption proceeds for subscriptions from September 1, 1989, through October 27, 1996?* For securities subscribed for from September 1, 1989, through October 27, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date,

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Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds if the current Treasury borrowing rate for the remaining period to original maturity exceeds the rate of interest originally fixed for such security. The amount shall be the present value of the future increased borrowing cost to the Treasury. The annual increased borrowing cost for each interest period is determined by multiplying the principal by the difference between the two rates. For notes and bonds, the increased borrowing cost for each remaining interest period to original maturity is determined by dividing the annual cost by two. Present value is determined by using the current Treasury borrowing rate as the discount factor. When you request a redemption date that is less than thirty days before the original maturity date, we will apply the rate of a one month security as listed on the SLGS rate table issued on the day you make a redemption request. The market charge under this paragraph can be computed by using the formulas in appendix A of this part.

(f) *How do I calculate the amount of redemption proceeds for subscriptions from December 28, 1976, through August 31, 1989?* For securities subscribed for from December 28, 1976, through August 31, 1989, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* Interest for the entire period the security was outstanding shall be recalculated if the original interest rate of the security is higher than the interest rate that would have been set at the time of the initial subscription had the term of the security been for the shorter period. If this results in an overpayment of interest, we will deduct from the redemption proceeds the aggregate amount of such overpayments, plus interest, compounded semi-annually thereon, from the date of each overpayment to the date of redemption. The rate used in calculating the interest on the overpayment will be one-eighth of one percent above the maximum rate that would have applied to the initial subscription had the term of the security been for the shorter period. If a bond is redeemed before ma-

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turity on a date other than a scheduled interest payment date, no interest is paid for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds in all cases where the current Treasury borrowing rate for the remaining period to original maturity of the security prematurely redeemed exceeds the rate of interest originally fixed for such security. You can compute the market charge under this paragraph by using the formulas in appendix A of this part.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15449, Mar. 4, 2024]

Subpart C—Demand Deposit Securities

SOURCE: 70 FR 37911, June 30, 2005, unless otherwise noted.

§ 344.7 What are Demand Deposit securities?

Demand Deposit securities are one-day certificates of indebtedness that are automatically rolled over each day until you request redemption.

(a) *How is the rate for Demand Deposit securities determined?* Each security shall bear a rate of interest based on an adjustment of the average yield for 13-week Treasury bills at the most recent auction. A new annualized effective Demand Deposit rate and daily factor for the Demand Deposit rate are effective on the first business day following the regular auction of 13-week Treasury bills and are shown in the SLGS rate table. Interest is accrued and added to the principal daily. Interest is computed on the balance of the principal, plus interest accrued through the preceding day.

(1) *How is the interest rate calculated?*
(i) First, you calculate the annualized effective Demand Deposit rate in decimals, designated “I” in Equation 1, as follows:

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

(Equation 1)

Where:

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I = Annualized effective Demand Deposit rate in decimals. If the rate is determined to be negative, such rate will be reset to zero.

P = Average auction price for the most recently auctioned 13-week Treasury bill, per hundred, to six decimals.

Y = 365 (if the year following issue date of the 13-week Treasury bill does not contain a leap year day) or 366 (if the year following issue date of the 13-week Treasury bill does contain a leap year day).

DTM = The number of days from date of issue to maturity for the most recently auctioned 13-week Treasury bill.

MTR = Estimated marginal tax rate, in decimals, of purchasers of tax-exempt bonds.

TAC = Treasury administrative costs, in decimals.

(ii) Then, you calculate the daily factor for the Demand Deposit rate as follows:

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

(Equation 2)

(2) *Where can I find additional information?* Information on the estimated average marginal tax rate and Treasury administrative costs for administering Demand Deposit securities, both to be determined by Treasury from time to time, will be published in the FEDERAL REGISTER.

(b) *What happens to Demand Deposit securities during a debt limit contingency?* At any time the Secretary determines that issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit, we may invest any unredeemed Demand Deposit securities in special 90-day certificates of indebtedness.

(1) Funds left invested in Demand Deposit securities remain subject to the normal terms and conditions for such securities as set forth in this part.

(2) Funds invested in 90-day certificates of indebtedness earn simple interest equal to the daily factor in effect at the time Demand Deposit security issuance is suspended, multiplied by the number of days outstanding. Ninety-day certificates of indebtedness are subject to the same request for redemption notification requirements as those for Demand Deposit securities and will be redeemed at par value plus accrued interest. If a 90-day certificate of indebtedness reaches maturity dur-

ing a debt limit contingency, we will automatically roll it into a new 90-day certificate of indebtedness, along with accrued interest, that earns simple interest equal to the daily factor in effect at the time that the new 90-day certificate of indebtedness is issued, multiplied by the number of days outstanding. When regular Treasury borrowing operations resume, the 90-day certificates of indebtedness, along with accrued interest, will be reinvested in Demand Deposit securities.

[70 FR 37911, June 30, 2005, as amended at 77 FR 33635, June 7, 2012; 89 FR 15449, Mar. 4, 2024]

§ 344.8 What other provisions apply to subscriptions for Demand Deposit securities?

(a) *When is my subscription due?* The subscriber must set the issue date in the subscription. You cannot change the issue date to require issuance earlier or later than the issue date originally specified; provided, however, you may change the issue date up to 7 days after the original issue date if you establish to the satisfaction of Treasury that such change is required as a result of circumstances that were unforeseen at the time of the subscription and are beyond the issuer's control (for example, a natural disaster). The issue date must be a business day. The issue date cannot be more than 60 days after the date we receive the subscription. If the subscription is for \$10 million or less, we must receive the subscription at least 5 days before the issue date. If the subscription is for more than \$10 million, we must receive the subscription at least 7 days before the issue date.

(b) *How do I start the subscription process?* A subscriber starts the subscription process by entering into SLGSafe the following information:

- (1) The issue date;
- (2) The total principal amount;
- (3) The issuer's name and Taxpayer Identification Number;
- (4) A description of the tax-advantaged bond issue; and
- (5) The certifications required by § 344.2(e)(1), if the subscription is submitted by an agent of the issuer.

(c) *Under what circumstances can I cancel a subscription?* You cannot cancel a subscription unless you establish, to

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the satisfaction of Treasury, that the cancellation is required for reasons unrelated to the use of the SLGS program to create a cost-free option.

(d) *How do I change a subscription?* You can change a subscription on or before 3 p.m., Eastern time, on the issue date. You may change the aggregate principal amount specified in the subscription by no more than ten percent, above or below the amount originally specified in the subscription.

(e) *How do I complete the subscription process?* The completed subscription must:

(1) Be dated and submitted electronically by an official authorized to make the purchase;

(2) Describe the bond issue. If the tax-advantaged bond issue referenced in paragraph (b)(4) of this section is, or will be, registered or disclosed in the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA[®]) system, describe the issue exactly as designated in the "issue description" field of EMMA[®], or successor system;

(3) Include the issuer's address;

(4) Include the information on the financial institution that will transmit the funds for the purchase of the securities;

(5) Not be more than ten percent above or below the aggregate principal amount originally specified in the subscription;

(6) Include the information required under paragraph (b) of this section, if not already provided; and

(7) Include the certifications required by § 344.2(e)(1) (agent certification), (e)(2)(i) (yield certification), and (e)(4) (eligibility certification).

[70 FR 37911, June 30, 2005, as amended at 89 FR 15450, Mar. 4, 2024]

§ 344.9 How do I redeem a Demand Deposit security?

(a) *When must I notify Treasury to redeem a security?* Demand Deposit securi-

ties can be redeemed at the owner's option, if we receive a request for redemption not less than:

(1) One business day before the requested redemption date for total redemptions by an owner of \$10 million or less;

(2) Three business days before the requested redemption date for total redemptions by an owner of more than \$10 million but less than \$500 million; and

(3) Five business days before the requested redemption date for total redemptions by an owner of \$500 million or more.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any amount. If your account balance is less than \$1,000, it must be redeemed in total.

(c) *Do I have to submit a request for redemption?* Yes. An official authorized to redeem the securities must submit an electronic request through SLGSafe. The request must show the Taxpayer Identification Number of the issuer, the security number, and the dollar amount of the securities to be redeemed. Fiscal Service must receive the request by 3 p.m., Eastern time on the required day. You cannot cancel the request.

[70 FR 37911, June 30, 2005, as amended at 89 FR 15450, Mar. 4, 2024]

APPENDIX A TO PART 344—EARLY REDEMPTION MARKET CHARGE FORMULAS AND EXAMPLES FOR SUBSCRIPTIONS FROM DECEMBER 28, 1976, THROUGH OCTOBER 27, 1996

(a) The amount of the market charge for bonds and notes subscribed for before October 28, 1996 can be determined by the following formula:

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

(Equation 1)

WHERE:	
M =	Market charge
b =	Increased annual borrowing cost (i.e., principal multiplied by the excess of the current borrowing rate for the period from redemption to original maturity of note or bond over the rate for the security)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that if the redemption date is on an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v ⁿ =	1/(1 + i/2) ⁿ = present value of 1 due at the end of n periods (Equation 2)
a _n =	(1 - v ⁿ)/(i/2) = v + v ² + v ³ + ... + v ⁿ = present value of 1 per period for n periods (Equation 3)

(b) The application of this formula can be illustrated by the following example:

(1) Assume that a \$600,000 note is issued on July 1, 1985, to mature on July 1, 1995. Interest is payable at a rate of 8% on January 1 and July 1.

(2) Assume that the note is redeemed on February 1, 1989, and that the current bor-

rowing rate for Treasury at that time for the remaining period of 6 years and 150 days is 11%.

(3) The increased annual borrowing cost is \$18,000. (\$600,000)(11%-8%)

(4) The market charge is computed as follows:

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

(Equation 4)

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

(Equation 5)

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

(Equation 6)

$$M = \frac{(\$7,458.56) + (\$9,000) (8.618517849)}{1.045580111}$$

(Equation 7)

$$M = \frac{(\$7,458.56) + (\$77,566.66)}{1.045580111}$$

(Equation 8)

$$M = \$81,318.71$$

(Equation 9)

(c) The amount of the market charge for certificates of indebtedness subscribed for before October 28, 1996 can be determined by the following formula:

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

(Equation 10)

WHERE:	
M =	Market charge
b =	Increased borrowing cost for full period
r =	Number of days from redemption date to original maturity date
s =	Number of days in current annual period (365 or 366)
i =	Current borrowing rate expressed in decimals (discount factor)

(d) The application of this formula can be illustrated by the following example:

(1) Assume that a \$50,000 certificate of indebtedness is issued on March 1, 1987, to mature on November 1, 1987. Interest is payable at a rate of 10%.

(2) Assume that the certificate of indebtedness is redeemed on July 1, 1987, and that the current borrowing cost to Treasury for the 123-day period from July 1, 1987, to November 1, 1987, is 11.8%.

(3) The increased annual borrowing cost is \$900. $(\$50,000) \times (11.8\% - 10\%)$

(4) The market charge is computed as follows:

$$M = \frac{\$900 \left(\frac{123}{365} \right)}{1 + \left(\frac{123}{365} \right) (.118)} =$$

(Equation 11)

$$\frac{\$303.29}{1.039764384} =$$

(Equation 12)

\$291.69

(Equation 13)

APPENDIX B TO PART 344—FORMULA FOR DETERMINING REDEMPTION VALUE FOR SECURITIES SUBSCRIBED FOR AND EARLY-REDEEMED ON OR AFTER OCTOBER 28, 1996

(a) This formula results in a premium or discount to the issuer depending on whether the current Treasury borrowing rate at the time of early redemption is lower or higher

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than the stated interest rate of the early-redeemed SLGS security. The total redemption value for bonds and notes can be determined by the following two steps. First, calculate accrued interest payable in accordance with §344.6(d)(1) using the following formula:

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

(Equation 14)

Second, calculate the redemption value per §344.6(d)(2) using the following formula:

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

(Equation 15)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = [(s-r)/s] x (C/2)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
C =	The regular annual interest
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that, if the redemption date is an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v ⁿ =	1/(1 + i/2) ⁿ = present value of 1 due at the end of n periods
a _n =	(1 - v ⁿ)/(i/2) = v + v ² + v ³ + ... + v ⁿ = present value of 1 per period for n periods

(b) The application of this formula can be illustrated by the following examples:

(1) The first example is for a redemption at a premium.

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 6.25%.

(iii) The redemption value is computed as follows. First, the accrued interest payable is calculated as:

$$AI = \left(\frac{183 - 50}{183} \right) \times \left(\frac{\$56,000}{2} \right)$$

(Equation 16)

$$AI = \left(\frac{133}{183} \right) \times \$28,000$$

(Equation 17)

$$AI = \$20,349.73$$

(Equation 18)

$$RV = \frac{\left(\frac{\$56,000}{2} \right) + \left(\frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left(\frac{50}{183} \right) \left(\frac{.0625}{2} \right)} - AI$$

(Equation 19)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[\frac{1 - \left(\frac{1}{\left(1 + \frac{.0625}{2}\right)^2}\right)}{\left(\frac{.0625}{2}\right)} \right] + \$800,000 \left[\frac{1}{\left(1 + \frac{.0625}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0625}{2}\right)} - AI$$

(Equation 20)

$$RV = \frac{\$28,000 + (\$28,000)(1.9100092) + (\$800,000)(0.94031221)}{1.008538251} - AI$$

(Equation 21)

$$RV = \frac{\$28,000 + \$53,480.26 + \$752,249.77}{1.008538251} - AI$$

(Equation 22)

$$RV = \frac{\$833,730.03}{1.008538251} - AI$$

(Equation 23)

$$RV = \$826,671.70 - \$20,349.73$$

(Equation 24)

$$RV = \$806,321.97$$

(Equation 25)

(2) The second example is for a redemption at a discount and it uses the same assumptions as the first example, except the current Treasury borrowing cost is assumed to be 8.00%:

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on

December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 8.00%.

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(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

$$AI = \left(\frac{183 - 50}{183} \right) \times \left(\frac{\$56,000}{2} \right)$$

(Equation 26)

$$AI = \left(\frac{133}{183} \right) \times \$28,000$$

(Equation 27)

$$AI = \$20,349.73$$

(Equation 28)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{\$56,000}{2} \right) + \left(\frac{\$56,000}{2} \right) a_{n|} + \$800,000 v^n}{1 + \left(\frac{50}{183} \right) \left(\frac{.0800}{2} \right)} - AI$$

(Equation 29)

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[\frac{1 - \left(\frac{1}{\left(1 + \frac{.0800}{2}\right)^2}\right)}{\left(\frac{.0800}{2}\right)} \right] + \$800,000 \left[\frac{1}{\left(1 + \frac{.0800}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0800}{2}\right)} - AI$$

(Equation 30)

$$RV = \frac{\$28,000 + (\$28,000)(1.8860947) + (\$800,000)(0.92455621)}{1.010928962} - AI$$

(Equation 31)

$$RV = \frac{\$28,000 + \$52,810.65 + \$739,644.97}{1.010928962} - AI$$

(Equation 32)

$$RV = \frac{\$820,455.62}{1.010928962} - AI$$

(Equation 33)

$$RV = \$811,585.83 - \$20,349.73$$

(Equation 34)

$$RV = \$791,236.10$$

(Equation 35)

(c) The total redemption value for certificates of indebtedness can be determined by the following two steps. First, calculate accrued interest payable in accordance with §344.6(d)(1) using the following formula:

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

(Equation 36)

Second, calculate the redemption value per §344.6(d)(2) using the following equation:

$$RV = \frac{\left(\frac{d}{y}\right) \times (C) + F}{1 + \left(\frac{r}{y}\right) \times (i)} - AI$$

(Equation 37)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = [(d-r)/y] x C
d =	Number of days from original issue of the certificate of indebtedness to its maturity date
r =	Number of days from redemption date to the certificate of indebtedness' maturity date
y =	365, if the number of days in the year following issue of the certificate of indebtedness does not include a leap year day; 366, if the number of days following issue of the certificate of indebtedness does include a leap year day
i =	Treasury borrowing rate over the remaining term to maturity, expressed in decimals
C =	The regular annual interest

(d) The application of this formula can be illustrated by the following examples.

First, the accrued interest payable is calculated as:

(1) First, for a redemption at a premium:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 26 days is 4.00%.

(iii) The redemption value is computed as follows.

$$AI = \left(\frac{151 - 26}{365} \right) \times \$15,000$$

(Equation 38)

$$AI = \left(\frac{125}{365} \right) \times \$15,000$$

(Equation 39)

$$AI = \$5,136.99$$

(Equation 40)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0400)} - AI$$

(Equation 41)

$$RV = \frac{\$6,205.48 + \$300,000}{1.002849315} - AI$$

(Equation 42)

$$RV = \frac{\$306,205.48}{1.002849315} - AI$$

(Equation 43)

$$RV = \$305,335.48 - \$5,136.99$$

(Equation 44)

$$RV = \$300,198.49$$

(Equation 45)

(2) Secondly, for a redemption at a discount:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current bor-

rowing rate for Treasury at that time for the remaining period of 26 days is 6.25%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

$$AI = \left(\frac{151-26}{365} \right) \times \$15,000$$

(Equation 46)

$$AI = \left(\frac{125}{365} \right) \times \$15,000$$

(Equation 47)

$$AI = \$5,136.99$$

(Equation 48)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0625)} - AI$$

(Equation 49)

$$RV = \frac{\$6,205.48 + \$300,000}{1.004452055} - AI$$

(Equation 50)

$$RV = \frac{\$306,205.48}{1.004452055} - AI$$

(Equation 51)

$$RV = \$304,848.28 - \$5,136.99$$

(Equation 52)

$$RV = \$299,711.29$$

(Equation 53)

PART 345—REGULATIONS GOVERNING 5 PERCENT TREASURY CERTIFICATES OF INDEBTEDNESS—R.E.A. SERIES

Sec.

- 345.0 Offering of certificates.
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AUTHORITY: 31 U.S.C. 754 and 754b; 5 U.S.C. 301.

SOURCE: 38 FR 35306, Dec. 27, 1973, unless otherwise noted.

§ 345.0 Offering of certificates.

The Secretary of the Treasury, under the authority of the Second Liberty Bond Act, as amended, offers to borrowers from the Rural Electrification Administration and Rural Telephone Bank, U.S. Department of Agriculture, 5 Percent Treasury Certificates of Indebtedness—R.E.A. Series. This offering will continue until terminated by the Secretary of the Treasury.

§ 345.1 Description of certificates.

(a) *General.* The certificates of indebtedness will be issued in book-entry form on the books of the Department of the Treasury, Bureau of the Fiscal Service, Washington, DC 20226. They may not be transferred by sale, exchange, assignment or pledge, or otherwise.

(b) *Terms and rates of interest.* The certificates, bearing interest at the rate of 5 percent per annum, will be issued in multiples of \$1,000 and will mature one year from issue date. Interest on the certificates will be computed on an annual basis and, unless redeemed prior to maturity, will be payable six months from issue date and at maturity. Interest may be paid to an owner by having the amount thereof credited by a Federal Reserve Bank or Branch, acting as fiscal agent of the United States, to the reserve account of a member bank servicing such owner and for the latter's account. Such action will be taken at the owner's option. If

not exercised, payment of interest will be made by Treasury check.

[38 FR 35306, Dec. 27, 1973, as amended at 40 FR 29846, July 16, 1975]

§ 345.2 Subscription for purchase.

The recipient of a 5 percent loan from the Rural Electrification Administration or Rural Telephone Bank may subscribe for certificates under this offering, up to the amount of the unexpended portion of the loan, by submitting a subscription, together with the remittance, to the Federal Reserve Bank or Branch of the district in which the subscriber is located. The subscription form must show the amount of certificates desired, and give the title of the designated official of the subscriber authorized to redeem them.

[40 FR 29846, July 16, 1975]

§ 345.3 Issue date and payment.

The issue date of a certificate shall be the date on which the subscription form, and funds in full payment therefor, are received by the office described in § 345.2. A confirmation of the issuance, in the form of a written advice, which shall specify the amount and describe the certificates by title and maturity date, shall be issued to the subscriber.

§ 345.4 Redemption/reinvestment.

(a) *At maturity.* A certificate may not be called for redemption by the Secretary of the Treasury prior to maturity except when the amount of the unexpended portion of the loan from the Rural Electrification Administration or Rural Telephone Bank is less than the face amount of the certificate. Unless the Treasury has received from the owner, at least one week prior to the maturity date of a certificate, a written request for payment at maturity, it shall automatically redeem the same at maturity, and reinvest in the owner's name the principal amount in a new certificate having the same description in all material respects as the one redeemed. No such automatic reinvestment shall be made, however, in excess of the amount of the unexpended portion of the loan from the Rural Electrification Administration or the Rural Telephone Bank.