

THE FEDERAL RESERVE SYSTEM'S GUIDE TO  
TREASURY FISCAL SERVICE COLLATERAL PROGRAMS



This guide provides an overview of Reserve bank services that support the three Treasury Fiscal Service collateral programs (also referred to as Treasury collateral programs) governed by the following three parts of Title 31 of the Code of Federal Regulations (CFR) under the United States Department of the Treasury:

- Title 31 CFR Part 202 – Depositories and Financial Agents of the Federal Government
- Title 31 CFR Part 203 – Payment of Federal Taxes and the Treasury Tax and Loan Program
- Title 31 CFR Part 225 – Acceptance of Bonds Secured by Government Obligations in Lieu of Bonds with Sureties

This guide is designed to acquaint depositories with operational processes involved with the Treasury collateral programs, including establishing, maintaining and closing Restricted Accounts for Treasury collateral programs, as well as depositing collateral to and withdrawing collateral from these accounts.

The information contained in this guide is presented as a general summary. It does not supersede or replace any requirements contained in:

- 1) Specific Treasury Fiscal Service collateral program agreements, regulations and policies, or
- 2) Federal Reserve Bank Operating Circulars, clearing memos or other guidelines.

The guide may be periodically updated to reflect current information. The most up-to-date version of this guide will be available through a link on the Federal Reserve Financial Services web site at [www.frbervices.org](http://www.frbervices.org). However, the guide may not reflect the most current information, and it is the responsibility of the depository to ensure it is following current guidelines and regulations.

Please contact the Treasury Tax & Loan (TT&L) Treasury Support Center (TSC) to discuss any specific questions regarding collateral acceptability or relevant Treasury collateral program account set-up and maintenance procedures.

**TT&L Treasury Support Center**  
**1-888-568-7343**

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*"Fedwire" is a registered service mark of the Federal Reserve Banks.*

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## 1. GLOSSARY OF TERMS

**Amount To Be Collateralized (ATBC)** – The required amount that government agencies (31 CFR Part 202 and 225) and the U.S. Trustees for Bankruptcy or the bankruptcy courts (31 CFR Part 225) have provided to the TSC as the amount to be secured with collateral by a depository.

**Balance Limit** – The maximum amount a TT&L Retainer or Investor has stated it will accept in its TIP Main Account.

**Borrower-In-Custody (BIC)** – Also referred to as Off-Premise Collateral (OPC). BIC refers to an arrangement by which a depository pledges certain types of acceptable assets as collateral to secure its Special Direct Investment (SDI) Account balance or its Term Investment Option (TIO) Account balance. (BIC arrangements may not be eligible for all TIO investments.) The depository is permitted to retain possession of the collateral on its own premises, subject to the terms and conditions agreed upon between the Treasury, the Reserve bank and the depository.

**Bureau of the Public Debt (BPD)** – A bureau of the Treasury with regulatory responsibility for establishing acceptable collateral and for determining the valuation of collateral for Treasury Fiscal Service collateral programs.

**Capacity** – The dollar amount that represents a TT&L Retainer or Investor depository's ability to retain tax deposits processed and receive direct investments from the Treasury. Capacity is calculated by using a depository's current collateral value or balance limit (whichever is lower) and subtracting the current TIP Main Account balance. Capacity for SDIs is the difference between (a) the dollar amount collateral (taken at the pledged value of the collateral) that the depository has pledged for SDIs under a BIC arrangement and (b) the current SDI Account balance.

**Collateral** – A marketable security or financial asset that has been determined by the Treasury and reviewed by a Reserve bank as acceptable for pledging to a Treasury collateral program. Depending on the program, the pledgor or obligor

provides collateral to secure deposits or investment balances at risk to the Treasury or a Federal agency or in lieu of performance bonds.

**Collateral Management System (CMS)** – An application operated by the Reserve banks that maintains a record of and values collateral pledged in non-Fedwire book-entry or definitive (physical) form for all Treasury collateral programs administered by the Reserve banks. Reserve banks process collateral transactions maintained and valued on this system. Collateral held at the Depository Trust Company (DTC), with an authorized third-party custodian, in a Reserve bank vault or through an OPC agreement (BIC arrangement) is reflected and valued on CMS.

**CMS Collateral** – Collateral other than Fedwire book-entry securities. CMS collateral includes obligations issued by government agencies, state and local governments, commercial customer notes, corporate notes, asset-backed securities or others that the Treasury has determined are eligible to be held in a Treasury collateral program Restricted Account.

**Computer Interface** – A communications link between computers at a financial institution and a Reserve bank.

**Depository** – A financial institution authorized to participate in the TT&L program, to secure public money on deposit and submit a bond secured by government obligations as collateral in lieu of bonds with sureties.

**Depository Trust Company (DTC)** – A national clearinghouse for settling trades in corporate and municipal securities and performing securities custody services for its participating financial institutions and broker-dealers. DTC is an authorized third-party custodian for the Reserve banks and the Treasury. DTC is a subsidiary of The Depository Trust and Clearing Corporation (DTCC).

**Electronic Federal Tax Payment System (EFTPS)** – A program that provides an electronic means for reporting and remitting federal tax payments. Taxes may be paid by using either Automated Clearinghouse (ACH) debit or credit transactions through designated Treasury financial agents or by the same-day tax reporting and payment mechanism, the **Federal Reserve Electronic Tax Application (FR-ETA)**,

through Reserve banks using Fedwire Value and Fedwire Non-value funds transfers.

**Fedwire Securities** – A marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations or others that the Reserve banks have determined is eligible to be held in a Fedwire securities account and is eligible for transfer through the Fedwire Securities Service.

**Fedwire Securities Service (Fedwire)** – The electronic facility operated by the Reserve banks for maintaining Fedwire securities accounts and for effecting Fedwire transfers.

**Fedwire Securities Wholesale Operations Sites (WOS)** – The Reserve banks (Boston and Kansas City) that provide consolidated customer support and securities account maintenance for the Fedwire Securities Service:

<b>Federal Reserve Bank of Boston</b>	<b>Federal Reserve Bank of Kansas City</b>
1-800-327-0147, option 2	1-800-333-2448
Boston	Kansas City
New York	Richmond
Philadelphia	Atlanta
Cleveland	Chicago
St. Louis	Minneapolis
Dallas	San Francisco

**Financial Management Service (FMS)**– A bureau of the Treasury that provides central payment services to federal program agencies, operates the federal government’s collections and deposit systems, provides government-wide accounting and reporting services and manages the collection of delinquent debt owed to the federal government.

**In-Transit Funds** – Paper tax deposits processed by a TT&L depository that are held overnight in a demand deposit account and remitted to the Treasury through the Reserve banks the next day.

**Online Institution** – A financial institution that has online access to the Fedwire Securities Service.

**Online Access** – A connection for the transmission of Fedwire transfer messages directly to or from a Reserve bank by electronic data transmission, excluding facsimile and oral transmission by telephone.

**Offline Institution** – A financial institution with offline access.

**Offline Access** – A connection other than online access for sending and receiving Fedwire transfer messages to or from a Reserve bank, such as written, facsimile or telephone voice instructions.

**Off-Premise Collateral (OPC)** – See Borrower-in-Custody (BIC).

**Paper Tax System (PATAX)** – A centralized application operated by the Reserve banks that collects, adjusts and reports all advices of credit that represent paper federal tax deposits.

**Restricted Account** – An account at a Reserve bank (a) used to hold collateral or (b) in which is recorded the receipt of an advice of custody evidencing that collateral is held by or for the pledgor subject to the security interest of the pledgee. On Fedwire and in other related documents, this Restricted Account is also referred to as a Restricted Securities Account.

**Temporary Secondary Account** – An account that is used by the surviving institution after the legal merger date to maintain the nonsurvivor's TT&L account on a temporary basis for up to six months; 6 months after the legal merger date, 100 percent of the secondary account's in-transit federal tax deposits must be collateralized. This designation also permits the temporary secondary account to continue holding pledged collateral under the other Treasury collateral programs.

**Third-Party Custodian** – A financial institution acting as a custodian holding pledged assets as collateral that has been approved by a Reserve bank acting as the Treasury’s fiscal agent.

**Treasury Investment Program (TIP)** – A centralized application operated by the Reserve banks to assist in collecting and reporting business tax payments remitted electronically or through PATAX. TIP also provides the capability for Treasury funds to be invested with TT&L direct investment and SDI program depositories. TIP processes the withdrawal of funds from TIP Main Accounts and SDI Accounts, computes and collects interest and penalties, and monitors collateral for selected Treasury collateral programs.

**TIP Main Account Balance** – The dollar value of Treasury funds a depository holds in an open-ended, interest-bearing account. The funds are received through paper and EFTPS tax deposit transactions or deposited by the Treasury through a direct investment or dynamic investment.

**TT&L Treasury Support Center (TT&L TSC)** – The office at the Federal Reserve Bank of St. Louis that:

- manages a depository’s TT&L Program participation,
- keeps a record (i.e., an account) of a TT&L depository’s TIP Main or SDI Account balance,
- processes Treasury investments and
- monitors collateral held under all of the Treasury collateral programs.

The Federal Reserve Bank of St. Louis acts on behalf of the Treasury as fiscal agent.

## Acronym Definitions

AOC – Advice of Credit

ATBC – Amount To Be Collateralized

BIC – Borrower-in-Custody

BPD – Bureau of the Public Debt

CFR – Code of Federal Regulations

CMS – Collateral Management System

DTC – Depository Trust Company

DTCC – Depository Trust and Clearing Corporation

EFTPS – Electronic Federal Tax Payment System

FMS – Financial Management Service

FR-ETA – Federal Reserve Electronic Tax Application

FTD – Federal Tax Deposit

OPC – Off-Premise Collateral

PATAX– Paper Tax System

SDI – Special Direct Investment

TIO – Term Investment Option

TIP – Treasury Investment Program

TT&L – Treasury Tax and Loan

TT&L TSC – TT&L Treasury Support Center

USTTEE – United States Trustee for Bankruptcy

WOS – Wholesale Operations Site

## 2. COLLATERAL CUSTODY AND PLEDGING

### 2.1 Collateral Custody

Generally, collateral pledged under the Treasury Fiscal Service collateral programs (Treasury collateral programs) must be deposited at a Reserve bank. Certain types of collateral can also be held with Treasury- and Reserve bank-approved third-party custodians or by qualified pledgors through an OPC arrangement.

### 2.2 Fedwire Securities

#### 2.2.1 Applicable Federal Reserve Bank Operating Circulars

Fedwire Securities pledged under Treasury collateral programs are held in distinct Restricted Accounts set up for a depository. Federal Reserve bank Operating Circular No. 7 contains specific information about Fedwire Securities Accounts and can be found at [www.frbervices.org](http://www.frbervices.org). Additional information about collateral held under Treasury collateral programs is available in Federal Reserve Bank Operating Circulars No. 8 and No. 9, also found at [www.frbervices.org](http://www.frbervices.org).

#### 2.2.2 Online Procedures

If a depository has online access to the Fedwire Securities Service, it can transfer securities in or out of a Treasury collateral program Restricted Account. Transfer requests out of a Treasury collateral program Restricted Account require approval by the TT&L TSC.

### 2.2.3 Offline Procedures

If a depository has offline access to the Fedwire Securities Service, it can transfer securities in or out of a Treasury collateral program Restricted Account by telephone or by sending written instructions (by mail or fax) to the Offline Wholesale Operations Site (WOS). Transfer requests out of a Treasury collateral program Restricted Account require approval by the TSC.

### 2.2.4 Fedwire Securities WOS

The Federal Reserve Bank of Boston's WOS serves depositories located in the following Reserve bank districts:

- Boston
- Cleveland
- Dallas
- New York
- Philadelphia
- St. Louis

The Federal Reserve Bank of Kansas City's WOS serves depositories located in the following Reserve bank districts:

- Atlanta
- Chicago
- Kansas City
- Minneapolis
- Richmond
- San Francisco

*See Appendix B to Operating Circular No. 7 for the operating hours to complete online or offline transfers.*

## 2.3 DTC Pledge Arrangements

Each Reserve bank has established a pledge account with DTC in which securities pledged under a Treasury collateral program can be held. The Reserve bank records securities pledged at DTC on the CMS application. CMS also applies market prices, if available from our vendor(s), and applicable margins to pledged securities for collateral valuation purposes.

### 2.3.1 DTC Arrangement Options

DTC arrangements are used to pledge eligible securities (e.g., municipal or corporate debt securities with acceptable credit ratings) that depositaries hold. A depositary can directly pledge such securities (if the depositary is a DTC participant), or it can pledge such securities through a correspondent that is a DTC participant. A depositary should contact its local Reserve bank to determine if a separate legal agreement is required in order to pledge securities held at DTC.

### 2.3.2 DTC Participants Making a Pledge

Depositaries that are DTC participants can initiate the transfer of securities through DTC to their local Reserve bank's Treasury collateral account at DTC. Depositaries can obtain this account number from their local Reserve bank.

### 2.3.3 Depositaries Pledging through a DTC Participant

Depositaries that hold securities through correspondents that are DTC participants must direct their correspondent to initiate the transfer of securities to their local Reserve bank's Treasury collateral account at DTC. Depositaries can obtain this account number from their local Reserve bank. The depositary should include its ABA number in the pledge instructions.

### 2.3.4 Acknowledgment of Deposit

Following the completion of a transfer on DTC's books and the recording of the pledge on CMS for collateral valuation purposes, the local Reserve bank will send a transaction summary report via email to the pledging depositary.

## 2.4 Third-Party Custody Pledging Arrangements

A depository can use an authorized third-party custodian to provide custody services for non-Fedwire, non-DTC collateral in connection with Treasury collateral programs. Third-party custody arrangements involve a depository, another depository institution (a custodian) that holds the assets to be pledged and the local Reserve bank. A third-party custodian must not be affiliated with the pledging depository and must be approved by the Treasury and the local Reserve bank before any pledge of collateral. The custodian must be recognized as a depository institution, in sound financial condition, and have acceptable custody controls for the assets in its possession. A depository should contact its local Reserve bank to obtain approval of a proposed third-party custodian.

### 2.4.1 Agreement of the Third-Party Custodian

The custodian must execute the Treasury's Third-Party Custody Agreement. This agreement must be in place before the pledgor pledges collateral through a third-party custodian. The custody agreement form can be obtained through the pledging institution's local Reserve bank or the TT&L TSC. The custodian will be required to periodically report and confirm holdings to the local Reserve bank.

### 2.4.2 Approval of Collateral To Be Pledged

Before pledging non-Fedwire collateral held by a third-party custodian, a depository must provide its local Reserve bank with a list of the collateral it intends to pledge. The local Reserve bank will review the collateral to ensure that it complies with the Treasury's and the local Reserve bank's acceptability standards and will notify the depository if the securities are acceptable or unacceptable. This review and acceptance process is generally completed within one business day.

### 2.4.3 Identification of Collateral and Advice Issuance

Upon receiving notice from its local Reserve bank that the collateral is acceptable, the custodian should identify the collateral as pledged by issuing an advice to the local Reserve bank. The advice confirms that the custodian holds the collateral for the local Reserve bank, which acts as fiscal agent for the Treasury.

### 2.4.4 Acknowledgment of Deposit

Following the receipt of an advice from the custodian and the recording of the pledge on CMS for collateral valuation purposes, the local Reserve bank will send a transaction summary report via email to the pledging depository.

## 2.5 Off-Premise Collateral (OPC) Arrangement (also referred to as a BIC)

For the SDI program and for specific TIO offerings, the Treasury has approved the pledging of collateral held in an OPC arrangement. A qualified depository can use an OPC arrangement to pledge assets that would be impractical to physically transfer to a local Reserve bank because of the high volume of individual items involved (e.g., commercial loans, 1–4 family mortgages and student loans). Under this arrangement, qualified depositories can retain custody of collateral while pledging it to a local Reserve bank for TT&L.

Before pledging collateral under an OPC arrangement, depositories must first:

- a) Execute the Agreement to Secure SDI or the Agreement to Secure TIO. These agreements are available to depositories by contacting the TT&L TSC.
- b) Satisfy the local Reserve bank that the depository is qualified to pledge collateral under an OPC arrangement. Generally, depositories must be in sound financial condition, maintain appropriate document-storage facilities and have an acceptable automated record/reporting system to be eligible to hold collateral in an OPC arrangement. This record/reporting system must

be capable of identifying the assets subject to the Treasury's security interest.

In addition to executing the Agreement to Secure SDI or the Agreement to Secure TIO, a depository's local Reserve bank will require the following:

- **Making a Pledge Arrangement**

The depository should contact the TT&L TSC for OPC agreements and the local Reserve bank's credit area to request an OPC (BIC) arrangement.

- **Completing the Questionnaire**

A depository must complete a Borrower-In-Custody Collateral Certification that describes its internal custody procedures, as well as its asset-evaluation and collateral-reporting processes.

- **Written Explanation of the Internal Rating System**

The depository must provide a written explanation of its internal loan-rating system to indicate how it assesses and rates the credit quality of its commercial customers. This requirement does not apply to residential mortgage loans or student loans.

- **Review by Local Reserve Bank Staff Members**

A depository must allow local Reserve bank staff members to visit its premises and perform a review of the pledged collateral. (The local Reserve bank will set up this appointment.) Thereafter, periodic on-site inspections may be conducted.

- **Periodic Collateral Schedule**

Submit a periodic collateral schedule (in electronic or hard-copy form) that identifies assets pledged to the Treasury held under the BIC arrangement. The depository must contact its local Reserve bank for requirements as to specific information to be provided on the collateral schedule and the frequency for schedule submission.

A depository's failure to comply with the local Reserve bank's BIC requirements, including those with respect to the contents and timing of collateral schedule submission, may result in the Reserve bank assigning zero value to the collateral pledged by the depository under this arrangement

- **Acknowledgment of Deposit**

Following submission of an acceptable collateral schedule, the local Reserve bank will send a transaction summary report via email to the pledging depository.

## **2.6 Reserve Bank Custody**

Reserve bank custody of collateral is available for certain physical assets, such as promissory notes evidencing commercial loans or registered notes and bonds. Before pledging commercial customer obligations, a depository should contact its local Reserve bank to discuss the process for pledging collateral to be held by the local Reserve bank. The local Reserve bank will request financial information and other details about the depository's commercial customers to evaluate the credit quality of the obligations. The depository should contact its local Reserve bank for other requirements in respect to pledged commercial customer obligations.

### **2.6.1 Review and Acknowledgment of Deposit**

A depository can deposit assets with its local Reserve bank along with a deposit application (available from the depository's local Reserve bank) that specifies that the assets are being pledged as collateral for a Treasury collateral program Restricted Account. Once these physical assets have been reviewed, approved and recorded on CMS for collateral valuation purposes, the local Reserve bank will send a transaction summary report via email to the pledging depository.

## 2.6.2 Acceptable Documents for Customer Obligations

Commercial customer obligations will only be acceptable if supported by an original document signed by the customer. This document can take the form of a promissory note or a credit agreement that states the specific terms of the lending arrangement.

## 2.6.3 Form for Liquidation of Assets

Commercial customer obligations or registered notes and bonds physically delivered to a local Reserve bank must be in a form such that the assets can be liquidated without further action by the depositary (i.e., notes must be endorsed to the local Reserve bank or a power of attorney must be provided). Depositaries should contact their local Reserve bank for additional information about this requirement.

## 2.7 General

### 2.7.1 Ownership of Collateral

The depositary pledging collateral to a Treasury collateral program must own all collateral pledged free and clear of all liens, charges and claims.

### 2.7.2 Proceeds to Satisfy Claims

Through the Reserve banks acting as fiscal agent, the Treasury may, with or without notice or demand, sell or otherwise collect the proceeds of all or part of the collateral, including additions and substitutions. The Treasury may apply the proceeds to satisfy any claim of the United States against the depositary if any of the following events occur:

- the depositary is closed for business by regulatory actions or by proper corporate actions,

- in the event that a receiver, conservator, liquidator or any other officer is appointed to terminate its business, or
- to satisfy any claim of the United States, including those not arising out of the depositary relationship.

### 3. TITLE 31 CFR PART 202 – DEPOSITARIES AND FINANCIAL AGENTS OF THE FEDERAL GOVERNMENT (FORMERLY KNOWN AS CIRCULAR 176)

#### 3.1 Purpose and Requirements

Government agencies are responsible for ensuring the security of public money. Public money includes, but is not limited to, revenue and funds of the United States and deposit funds subject to the control or regulation of the United States or any of its officers, agents or employees. The procedures and authority for the agencies are issued under Title 31 of CFR Part 202 (202 program, Depositaries and Financial Agents of the Federal Government) and Part 380 (Collateral Acceptability and Valuation). These regulations govern the designation of financial institutions as depositaries and financial agents of the federal government, the deposit of public money, and the acceptability and valuation of collateral pledged to secure public funds. Based on the collateral requirements supplied by the government agencies, the TT&L TSC, acting as fiscal agent for the Treasury, will ensure that depositaries provide proper collateralization for public money, as defined above, that exceed applicable insurance limits.

When an agency selects a financial institution as a depositary for public funds, the financial institution is required to complete, execute and submit FMS forms 5902 and 5903. The TT&L TSC will be responsible for obtaining and maintaining current forms for all depositaries with public funds on deposit under this program.

#### **FMS Form 5902**

##### *Resolution Authorizing Execution of Depositary, Financial and Collateral Agreement*

This form is a resolution that must be adopted by the depositary's board of directors and stamped with the depositary's corporate seal. The resolution authorizes an officer of the depositary to execute FMS form 5903 on behalf of the depositary.

### **FMS Form 5903**

#### *Depository, Financial Agency and Collateral Agreement*

This agreement defines the responsibilities of the financial institution as a depository of public funds under the 202 program. This agreement must be executed by an officer of the institution, as designated on FMS form 5902, with authority to do so. This form must also be stamped with the depository's corporate seal.

### **3.2 Acceptable Collateral**

The most current listing of acceptable collateral for the 202 program is available on the Bureau of the Public Debt's web site at:

[http://www.treasurydirect.gov/instit/statreg/collateral/collateral\\_acc31cfr202.pdf](http://www.treasurydirect.gov/instit/statreg/collateral/collateral_acc31cfr202.pdf)

### **3.3 Collateral Valuation**

The Reserve banks use pricing vendor(s) that currently reprice marketable fixed income securities pledged under Treasury collateral programs on a daily basis at the opening of business each day. The prices reflect market closes as of the previous Thursday. For paydown securities, new factors are applied to Fedwire securities when they are received from the issuer and to collateral recorded on CMS when they are received from the pricing vendor(s). Margins are also applied to priced and nonpriced marketable securities based on asset type to adjust the market valuation for collateral requirement purposes.

A copy of the current collateral margin table is available on the Bureau of the Public Debt's web site (referenced in section 3.2). This table identifies the appropriate margin values for acceptable collateral as approved by the Treasury. For more specific questions about acceptable collateral and its valuation, depositories should contact the TT&L TSC at 1-888-568-7343 and choose option 2 for collateral.

### 3.4 Restricted Account Maintenance

#### Opening an Account

After a financial institution has been contacted by an authorized agency to hold public funds on deposit, the institution should contact the TT&L TSC to ensure that the agency's 202 program Restricted Account is established under its Fedwire securities account structure in order to pledge Fedwire securities. For CMS, the 202 program Restricted Account is opened by the deposit of collateral with the depository's local Reserve bank's CMS area. The depository must obtain the four-digit account number from the agency. It will be an alphanumeric character beginning with the letter V, followed by three numbers. If the agency does not know its number or does not have one, the depository should request that the agency contact the TT&L TSC to ensure the correct account is established.

*Note: If not already on file with the TT&L TSC, the financial institution will be required to complete the legal forms described in Section 3.1 of this document before the account can be opened.*

#### Closing an Account

If a depository no longer holds public funds on deposit from a specific agency, it must contact the TT&L TSC to have its Fedwire 202 program Restricted Account closed. The TT&L TSC will verify with the agency that funds are no longer on deposit with the depository. Once verified, the depository should send a written request to the TT&L TSC requesting that the specific 202 program Restricted Account be closed to its Fedwire securities account. For CMS, the authorized withdrawal of all collateral from the account closes the account.

*Note: The 202 program Restricted Account will not be closed until the TT&L TSC has verified with the agency that the collateral requirement has been reduced to zero and that no other monies will be deposited.*

### 3.5 Amount To Be Collateralized (ATBC)

After all requirements have been met and the deposit relationship is established with the depository, the agency will inform the TT&L TSC of the amount of collateral value required for the designated depository. This dollar amount is referred to as the ATBC. The ATBC can be increased or decreased by the agency via TT&L Plus or by contacting the TT&L TSC. The TT&L TSC will not change an ATBC without direction to do so from the agency. If a depository has a question about the current ATBC for a specific agency, it should contact the agency directly.

### 3.6 Collateral Monitoring

Collateral held under a 202 program Restricted Account is monitored by the TIP application using current collateral value, not par value. Depositories pledging collateral to a 202 program Restricted Account must ensure that the current collateral value is sufficient to cover the ATBC.<sup>1</sup> TIP begins monitoring collateral at 3 a.m. ET, based on end-of-day collateral values received from CMS for all pledged collateral, and receives updates at approximately 50 minutes past the hour from 10:50 a.m. ET through 5:50 p.m. ET. These collateral values are as of the hour (e.g., the 10:50 a.m. ET file will have collateral values as of 10 a.m. ET).

#### 3.6.1 Collateral Deposits *(See section 2 for additional information.)*

##### Fedwire Securities

A 202 program Restricted Account needs to be opened on Fedwire before securities can be pledged. *(See section 3.4 on Restricted Account Maintenance.)* A depository can initiate transactions through its online access to the Fedwire Securities Service by contacting the appropriate WOS (when the depository has offline access to the Fedwire Securities Service) or by contacting its correspondent bank (when a correspondent bank handles the security transfer).

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<sup>1</sup> While the TT&L TSC monitors collateral value against the ATBC, the depository has the responsibility for ensuring that all uninsured deposits of the agency are fully collateralized.

### CMS Collateral

Depositories must contact their local Reserve bank's CMS area to process collateral transactions recorded on this system. Collateral held at DTC, at an authorized third-party custodian is recorded and valued on CMS.

### Ineligible Collateral

The TT&L TSC will review Fedwire security deposits for eligibility. If the security is ineligible for the 202 program, the TT&L TSC will contact the depository. A replacement (if needed) should be deposited, and a withdrawal request for the ineligible collateral should be submitted. *(See section 3.6.2 on withdrawals for instructions on how to release a security.)* If the withdrawal of ineligible collateral would create a collateral deficiency in the account, the TT&L TSC will not approve the withdrawal request until the depository deposits an eligible substitute of sufficient collateral value. CMS collateral deposits are currently reviewed by the local Reserve bank. A depository should contact its local Reserve bank before pledging CMS collateral to ensure that the asset is eligible for the 202 program.

## 3.6.2 Collateral Withdrawals

### Fedwire Securities

A depository can request the withdrawal of securities from its 202 program Restricted Accounts through the Fedwire Securities Service. The TT&L TSC will review all withdrawal requests of securities and approve only the requests that do not create a collateral deficiency in the account. A depository can initiate withdrawal requests in one of two ways: through online access or through the appropriate WOS for offline depositories.

### CMS Collateral

A depository must contact its local Reserve bank's CMS area to process collateral withdrawal transactions recorded on this system. Collateral held at DTC, with an authorized third-party custodian or in a local Reserve bank's vault is recorded and valued on CMS and may require additional action for withdrawal.

### 3.6.3 Maturing Collateral

#### Fedwire Securities

Proceeds from maturing securities held under a 202 program Restricted Account will not be released for payment to a depository if the remaining collateral value is not sufficient to cover the ATBC. In such cases, proceeds will only be released upon receipt of sufficient replacement collateral value from the depository. If the depository questions the account's current ATBC, the TT&L TSC will contact the agency to verify the requirement. If the agency adjusts the ATBC and a deficiency would not occur, the TT&L TSC will release the proceeds to the depository. If the agency does not adjust the ATBC, the depository will be required to deposit a replacement of sufficient collateral value before the proceeds are released. If a depository still disputes the ATBC, it should contact the agency directly to resolve the issue. Proceeds will be held in a noninterest-bearing account by the TT&L TSC until sufficient collateral value exists to release the proceeds.

#### CMS Collateral

The local Reserve bank's CMS area provides depositories with information about upcoming maturing CMS collateral. The local Reserve bank's CMS area will contact the TT&L TSC for authorization to release maturing CMS collateral held in 202 program Restricted Accounts by depositories. The maturing collateral will not be released if the remaining collateral value is not sufficient to cover the ATBC for the account.

### 3.6.4 Collateral Deficiencies

A collateral deficiency occurs when the current collateral value is less than the account's ATBC. Collateral deficiencies may occur in a 202 program Restricted Account for four reasons:

- a. Collateral held in the account received a periodic principal paydown (e.g., mortgage-backed securities or asset-backed securities).
- b. Collateral held in the account was revalued.

- c. Collateral held in the account either matured or was called.
- d. The agency increased the ATBC for the account.

When a deficient account is identified during TIP's collateral monitoring process, the TT&L TSC will inform the depository that additional collateral must be deposited as soon as possible.

### **3.7 Mergers and Acquisitions**

If a depository (the nonsurvivor) participating in the 202 program is merging into another depository (the survivor), instructions concerning the disposition of collateral held under any 202 program Restricted Account(s) for the nonsurvivor should be included in the merger information provided by the survivor to its local Reserve bank, which will forward the information to the TT&L TSC for further processing.

If the legal and operational mergers occur on different dates, the nonsurvivor's account will be designated as a temporary secondary 202 account on the legal merger date. The temporary secondary account will maintain the use of its routing number, and will have the recognized insurance coverage for its 202 account balances for the first 6 months after the legal merger date. The survivor will be responsible for ensuring that sufficient collateral is pledged for the temporary secondary account by the end of the 6<sup>th</sup> month after the legal merger date. The temporary secondary account may be retained for up to one year after the legal merger date.

If the survivor requests that the collateral be transferred before the operational merger date, it should contact the TT&L TSC for further instructions.

Prior to the operational merger date, the TT&L TSC will contact the agencies involved to verify ATBCs and to obtain authorization to move the collateral. On the operational merger date after receiving authorization from the respective agency(s), the TT&L TSC will authorize the transfer of any securities held in the temporary secondary account's 202 program Restricted Account(s) to the survivor's appropriate 202 program Restricted Account(s).

## 4. TITLE 31 CFR PART 203– PAYMENT OF FEDERAL TAXES AND THE TREASURY, TAX AND LOAN PROGRAM (ALSO KNOWN AS TT&L)

### 4.1 Authority and Designation

The TT&L program is governed by Title 31 of CFR Part 203 (TT&L program) and Part 380 (Acceptability and Valuation), which contains requirements for financial institutions to become and serve as TT&L depositories, as well as the necessary agreements between these depositories and the Treasury. The financial institution can obtain the necessary forms by contacting the TT&L TSC at 1-888-568-7343. Upon submission of the forms, the financial institution will be contacted concerning verification of the information submitted and acceptance into the program. Two systems, TIP and PATAX, assist in the tax collection and investment process for both TT&L depositories and the Treasury. For more information on the TT&L program, refer to the TT&L Reference Guide available at [www.frbsservices.org/Treasury/pdf/ReferenceGuide.pdf](http://www.frbsservices.org/Treasury/pdf/ReferenceGuide.pdf).

### 4.2 Levels of Participation

TT&L depositories have the option to choose to be designated Collector, Retainer or Investor participants.

#### 4.2.1 Collector Option

Collector depositories process electronic tax payments and accept paper tax deposits from business customers. Because the dollar amount of paper tax deposits received by a Collector depository settles on the day after the depository receives them, the depository holds the funds overnight in a TT&L demand account. Collector depositories must fully collateralize deposits held in this demand account that exceed recognized insurance coverage on the date the tax deposits are received.

#### 4.2.2 Retainer Option

Retainer depositaries process electronic tax payments and accept paper tax deposits from their business customers and retain the funds in their TIP Main Account, if sufficient capacity exists. The depositary limits the amount of funds it holds by setting a balance limit for the TIP Main Account. The Retainer depositary must fully collateralize the balance limit amount and in-transit paper tax deposits in excess of the recognized insurance coverage.

#### 4.2.3 Investor Option

Investor depositaries process electronic tax payments and accept paper tax payments from their business customers, retain the funds from the tax deposits in their TIP Main Account (similar to a Retainer), but will also accept additional investments from the Treasury. The Investor depositary limits the amount of funds it holds by setting a balance limit for its TIP Main Account. The Investor depositary must fully collateralize its TIP Main Account balance and in-transit paper tax deposits in excess of the recognized insurance coverage.

### 4.3 Acceptable Collateral

The most current listing of acceptable collateral under the TT&L program is available on the Bureau of the Public Debt's web site at [http://www.treasurydirect.gov/instit/statreg/collateral/collateral\\_acctaxandloan.pdf](http://www.treasurydirect.gov/instit/statreg/collateral/collateral_acctaxandloan.pdf)

### 4.4 Collateral Valuation

The Reserve banks use pricing vendor(s) that normally reprice marketable fixed income securities pledged under Treasury collateral programs on a weekly basis at the opening of business each Friday. The prices reflect market closes as of the previous Thursday. For paydown securities, new factors are applied to Fedwire securities when they are received from the issuer and to collateral recorded on CMS when they are received from the pricing vendor(s). Other collateral, such as

commercial loans, is valued based on a margin established by the Treasury. Margins are also applied to priced and nonpriced marketable securities based on asset type to adjust the market valuation for collateral valuation purposes.

A copy of the collateral margin table is also available at the Treasury's Bureau of the Public Debt web site. This table identifies the appropriate margin values for acceptable collateral as determined by the Treasury. For more specific questions about acceptable collateral and its valuation, depositaries should contact the TT&L TSC at 1-888-568-7343 and choose option 2 for collateral.

#### **4.5 Restricted Account Maintenance**

##### Opening an Account

After a financial institution has been designated as a TT&L depository and collateral is required to cover funds held in its TIP Main Account or to cover in-transit (overnight) tax deposits, collateral must be pledged to a TT&L Restricted Account (T108). For Fedwire securities, written or verbal authorization from the depository is required by the TT&L TSC to have this account established under its Fedwire securities account structure. For CMS collateral, the account is opened by the recording of collateral pledged through the local Reserve bank's CMS area.

##### Closing an Account

To close a Fedwire Securities Service TT&L Restricted Account, a depository must contact the TT&L TSC. The depository must send written instructions to the TT&L TSC for the account to be closed. The TT&L TSC will work with the local WOS to close the account. For CMS, the account is closed when all collateral has been withdrawn.

#### **4.6 Collateral Monitoring**

Collateral held under the TT&L program is monitored by the TIP application using current collateral value, not par value. Depositaries pledging collateral to a TT&L program Restricted Account must ensure that the current collateral value is sufficient to cover in-transit tax deposits and, if applicable, its TIP Main Account

balance. TIP begins monitoring collateral at 3 a.m. ET, based on end-of-day collateral values received from CMS for all pledged collateral, and receives updates at approximately 50 minutes past the hour from 10:50 a.m. ET through 5:50 p.m. ET. These collateral values are as of the hour (e.g., the 10:50 a.m. ET file will have collateral values as of 10 a.m. ET).

#### 4.6.1 Collateral Deposits *(See section 2 for additional information.)*

##### Fedwire Securities

A TT&L Restricted Account needs to be opened on the Fedwire Securities Service before securities can be pledged. *(See section 4.5 on Restricted Account Maintenance.)* A depository can initiate transactions through its online access to the Fedwire Securities Service by contacting the appropriate WOS (when the depository has offline access to the Fedwire Securities Service) or by contacting its correspondent bank (when a correspondent bank handles the depository's security transfers).

##### CMS Collateral

Depositories must contact their local Reserve bank to process collateral transactions recorded on this system. Collateral held at DTC, with an authorized third-party custodian, or in a local Reserve bank's vault is recorded and valued on CMS.

##### Ineligible Securities

The TT&L TSC will review Fedwire security deposits for eligibility. If the security is ineligible, the TT&L TSC will contact the depository to release the deposit. *(See section 4.6.2 on withdrawals for instructions on how to release a security.)* CMS collateral deposits are currently reviewed by the local Reserve bank. A depository should contact its local Reserve bank before pledging CMS collateral to ensure that the asset is eligible for the TT&L program.

## 4.6.2 Collateral Withdrawals

### Fedwire Securities

A depository can request a withdrawal of securities from its TT&L Restricted Account through the Fedwire Securities Service. The TT&L TSC will review and approve all withdrawal requests. A depository can initiate withdrawal requests in one of two ways: through its FedLine access (for online institutions) or through the appropriate WOS (for offline institutions).

### CMS Collateral

A depository must contact its local Reserve bank's CMS area to process collateral withdrawal transactions recorded on this system. Collateral held at DTC, with an authorized third-party custodian or in a local Reserve bank's vault is recorded and valued on CMS and may require additional action for withdrawal.

## 4.6.3 Maturing Collateral

### Fedwire Securities

Proceeds from maturing securities pledged under a TT&L Restricted Account are automatically credited to the pledging depository's Reserve Account or its correspondent's Reserve Account on the maturity or payment date. If the maturity creates a collateral deficiency in a depository's TIP Main Account, funds will be withdrawn from the depository's TIP Main Account and debited from its Reserve Account to eliminate the collateral deficiency.

### CMS Collateral

The local Reserve bank's CMS area notifies depositories of upcoming maturing CMS collateral. The local CMS area will contact the TT&L TSC for authorization to release maturing CMS collateral held in TT&L program Restricted Accounts by depositories. If a maturity creates a collateral deficiency in a depository's TIP Main Account, funds will be withdrawn from the depository's TIP Main Account and debited from its Reserve Account to eliminate the collateral deficiency.

#### 4.6.4 Collateral Deficiencies

A collateral deficiency occurs when the current collateral value is less than the current TIP Main Account balance or the total collateral value is less than the TIP Main Account balance plus in-transit funds. Collateral deficiencies can occur in a depository's TT&L account for four reasons:

- a. Collateral held in the account received a periodic principal paydown (e.g., mortgage-backed securities or asset-backed securities).
- b. Collateral held in the account was revalued.
- c. Collateral held in the account either matured or was called.
- d. Collateral held in the account was withdrawn by the depository.

#### TIP Main Account

A depository that retains funds in its TIP Main Account is responsible for ensuring that those funds are fully collateralized at all times. If the total collateral value falls below the TIP Main Account balance, TIP will perform a collateral deficiency withdrawal and reduce the depository's account balance by the amount that is deficient.

#### In-Transit Deficiencies

TT&L depositories that collect paper tax deposits hold the funds overnight in a TT&L demand account. The depository must collateralize funds in excess of recognized insurance. For Collectors, if the in-transit tax deposits exceed the recognized insurance coverage and collateral pledged, the TT&L TSC will contact the depository about the deficiency. For Retainers and Investors, only collateral pledged in excess of a depository's TIP Main Account balance can be used to collateralize in-transit tax deposits. Because in-transit totals are not available until reported by the depository to TT&L (through PATAX) the next business day, the TT&L TSC will contact a deficient depository after the occurrence and counsel it to more closely monitor its account and pledge additional collateral. The Treasury may place depositories that have frequent in-transit deficiencies under sanction. Sanctioned depositories will have

more stringent collateral requirements established to ensure that in-transit tax deposits are collateralized.

#### **4.7 Mergers and Acquisitions**

If a depository (the nonsurvivor) participating in the TT&L program is merging into another depository (the survivor), instructions concerning the disposition of collateral held under a TT&L Restricted Account for the nonsurvivor should be included in the merger information provided by the survivor to its local Reserve bank, which will forward the information to the TT&L TSC for further processing.

If the legal and operational mergers occur on different dates, the nonsurvivor's account will be designated as a temporary secondary TT&L account on the legal merger date. The temporary secondary account will maintain the use of its routing number, and will have the recognized insurance coverage for its in-transit balances for the first 6 months after the legal merger date. The survivor will be responsible for ensuring that sufficient collateral is pledged for the temporary secondary account by the end of the 6<sup>th</sup> month after the legal merger date. The temporary secondary account may be retained for up to one year after the legal merger date.

On the operational merger date, the TT&L TSC will inactivate the temporary secondary TT&L account and authorize the transfer of any collateral pledged for the temporary secondary account. If the temporary secondary account has a TIP Main Account balance, the balance will be withdrawn from the account and returned to the Treasury at the close of TIP the day before the operational merger date.

#### **4.8 Special Direct Investment (SDI) Option**

The SDI option enables a depository to receive excess funds from the Treasury into an SDI Account secured by collateral held under an OPC arrangement. A TT&L depository that elects to participate in the SDI option must be a participant in the Direct Investment option.

#### 4.8.1 Acceptable Collateral

A minimum of \$2.5 million of acceptable collateral is required to participate in the SDI option. The most current listing of acceptable collateral for the SDI option is available on the Treasury's Bureau of the Public Debt's web site at

[http://www.treasurydirect.gov/instit/statreg/collateral/collateral\\_specialdirectinvestment.htm](http://www.treasurydirect.gov/instit/statreg/collateral/collateral_specialdirectinvestment.htm). For more specific questions, contact the TT&L TSC at 1-888-568-7343.

#### 4.8.2 Restricted Account Maintenance

##### Opening a Restricted Account

After a TT&L depository has been approved to become an SDI participant, the local Reserve bank's CMS area will establish the SDI Restricted Account (T109) when collateral is pledged.

##### Closing an Account

A depository must contact the TT&L TSC to withdraw from the SDI option and close its SDI Restricted Account. The depository will be required to send written instructions on official letterhead to close the account. The letter must be signed by an authorized official of the depository.

#### 4.8.3 Collateral Monitoring

Depositories pledging collateral to secure SDI Account balances must ensure that the current collateral value will be sufficient to cover its SDI Account balance. TIP begins monitoring collateral at 3 a.m. ET, based on end-of-day collateral values received from CMS for all pledged collateral, and receives updates at approximately 50 minutes past the hour from 10:50 a.m. ET through 5:50 p.m. ET. These collateral values are as of the hour (e.g., the 10:50 a.m. ET update will have collateral values as of 10 a.m. ET).

##### 4.8.3.1 Collateral Deposits

An SDI participant must contact its local Reserve bank to pledge collateral into its SDI Restricted Account. Collateral held under an

OPC agreement is recorded and valued on CMS. The local Reserve bank will also provide the depository with requirements for submitting the revaluation files to update collateral value for the assets pledged.

#### 4.8.3.2 Collateral Withdrawals

An SDI participant must contact its local Reserve bank to withdraw collateral pledged to secure its SDI Account balance. The local Reserve bank's CMS area will contact the TT&L TSC for approval of the withdrawal request. If the withdrawal lowers the collateral value held below the current SDI Account balance, the TT&L TSC will inform the participant that the deficient amount will be withdrawn from its SDI Account balance to eliminate the collateral deficiency.

#### 4.8.3.3 Maturing Collateral

SDI participants must submit a revaluation file periodically to their local Reserve bank to update collateral value. Typically, local Reserve banks treat the next revaluation date as the maturity date on CMS. Therefore, if the SDI participant does not submit a revaluation file within the timeframe designated by the local Reserve bank, a zero collateral value will be assigned to the collateral by the local Reserve bank. *(Refer to Section 2.5 for additional information.)*

#### 4.8.3.4 Collateral Deficiencies

The TIP application will compare the collateral value to the current SDI Account balance. The collateral value must be greater than or equal to the funds held in the SDI Account balance. If the collateral value falls below the SDI Account balance, the account is identified as deficient. The TT&L TSC will notify the depository of the deficiency, and funds will be withdrawn from the SDI Account balance if the depository cannot pledge additional collateral by the close of business on the day it receives notification of the deficiency.

#### 4.8.4 Mergers and Acquisitions

If a depository (the nonsurvivor) participating in the SDI option is merging into another depository (the survivor), instructions concerning the disposition of collateral held under an SDI Restricted Account for the nonsurvivor should be included in the merger information provided by the survivor to its local Reserve bank, which will forward the information to the TT&L TSC for further processing.

If the legal and operational mergers occur on different dates, the nonsurvivor's SDI Account may remain active if the survivor maintains the nonsurvivor's TT&L account as a temporary secondary account. The temporary secondary account will be able to pledge collateral to its SDI Restricted Account until the operational merger date, unless otherwise noted in instructions to the survivor's local Reserve bank. The temporary secondary account may be retained for up to one year after the legal merger date. If the survivor needs the collateral moved or released before the operational merger date, it should contact the TT&L TSC for further instructions.

On the operational merger date, the TT&L TSC will inactivate the temporary secondary account and authorize the transfer of any collateral pledged for the temporary secondary account according to instructions received from the survivor. If the temporary secondary account has an SDI Account balance, the balance will be withdrawn from the account and returned to the Treasury at the close of TIP the day before the operational merger date.

#### 4.9 Term Investment Option (TIO) Program

The TIO program invests Treasury funds for a fixed period of time. The Treasury provides notice of term investments by issuing an offering announcement via e-mail to program participants. For additional information on the Term Investment Program, call the TIO hotline at 1-800-333-0870.

#### 4.9.1 Acceptable Collateral

The most current listing of acceptable collateral for the TIO program is available on the Treasury's Bureau of the Public Debt's web site at [http://www.treasurydirect.gov/instit/statreg/collateral/collateral\\_terminvestment.htm](http://www.treasurydirect.gov/instit/statreg/collateral/collateral_terminvestment.htm). Each TIO offering announcement will provide more detail on acceptable collateral for that offering.

#### 4.9.2 Restricted Account Maintenance

##### Opening an Account

After a TT&L depository has been designated as a TIO participant, the TT&L TSC will establish a TIO Restricted Account (T208) on the Fedwire Securities Service to pledge Fedwire securities to cover TIO Account balances. The local Reserve bank will establish the TIO Restricted Account on CMS if other asset types are pledged. If an institution decides to pledge OPC to cover TIO Account balances, the TT&L TSC will contact the local Reserve bank to establish a TIO Restricted Account (T209) for collateral held under an OPC arrangement.

##### Closing an Account

A depository must contact the TT&L TSC to close a TIO Restricted Account. The depository will be required to send written instructions on official letterhead to withdraw from the TIO program and close the Restricted Account. The letter should be signed by an authorized institution official.

#### 4.9.3 Collateral Monitoring

Collateral held under the TIO program is monitored using current collateral value, not par value. Depositories pledging collateral in this program need to ensure that the current collateral value is sufficient to cover its TIO Account balance. TIP begins monitoring collateral at 3 a.m. ET, based on end-of-day collateral values received for all collateral from CMS, and receives updates at approximately 50 minutes past the hour from 10:50

a.m. ET through 5:50 p.m. ET. These collateral values are as of the hour (e.g., the 10:50 a.m. ET file will have collateral values as of 10 a.m. ET).

#### 4.9.3.1 Collateral Deposits *(See section 2 for additional information.)*

##### Fedwire Securities

A TIO Restricted Account must be opened on the Fedwire Securities Service before securities can be pledged. *(See 4.9.2 section on Restricted Account Maintenance.)* A TIO participant can initiate these transactions through its online access to the Fedwire Securities Service, by contacting the appropriate WOS (when the depository has offline access to the Fedwire Securities Service), or by contacting its correspondent bank (when a correspondent bank handles the depository's security transfers). If transferring a security through its correspondent bank, the TIO participant should contact the correspondent and provide instructions to deliver the security to its ABA number and the TIO Restricted Account (T208).

##### CMS Collateral

TIO participants must contact their local Reserve bank to process collateral transactions recorded on this system. Collateral held at DTC, with an authorized third-party custodian, in a local Reserve bank's vault or through an OPC agreement is recorded and valued on CMS.

##### Ineligible Securities

The TT&L TSC will review Fedwire security deposits for eligibility. If the security is ineligible, the TT&L TSC will contact the TIO participant to release the deposit. *(See section 4.9.3.2 on withdrawals for instructions on how to release a security.)* CMS collateral deposits are currently reviewed by the local Reserve bank. A TIO participant should contact its local Reserve bank before pledging CMS collateral to ensure that the asset is eligible for the TIO Program.

#### 4.9.3.2 Collateral Withdrawals

##### Fedwire Securities

A TIO participant can request a withdrawal of securities from its TIO Restricted Account through the Fedwire Securities Service. The TT&L TSC will review and approve all withdrawal requests of securities. A participant can initiate withdrawal requests in one of two ways: through online access or through the appropriate WOS for offline depositories.

##### CMS Collateral

A TIO participant must contact its local Reserve bank's CMS area to process collateral withdrawal transactions recorded on this system. Collateral held at DTC, with an authorized third-party custodian, in a local Reserve bank's vault or through an OPC agreement is recorded and valued on CMS and may require additional action for withdrawal.

#### 4.9.3.3 Maturing Collateral

##### Fedwire Securities

All maturing proceeds for collateral pledged to a TIO Restricted Account are automatically credited to the participant's Reserve Account or its correspondent's Reserve Account by Fedwire on the maturity or payment date. The TT&L TSC will review upcoming maturities and notify TIO participants one day before the maturity date that a replacement is needed if the maturity will cause the collateral value to fall below the TIO Account balance.

##### CMS Collateral

The local Reserve bank's CMS area provides TIO participants with information about upcoming maturing collateral. The local Reserve bank's CMS area will also contact the TT&L TSC for authorization to release CMS maturing collateral that is held under a TIO Restricted Account. If the maturity will cause the collateral value to fall below the TIO Account balance, the TT&L TSC will not give authorization to release the collateral and will contact the participant to pledge replacement collateral.

#### 4.9.3.4 Collateral Deficiencies

A collateral deficiency occurs when the current collateral value is less than the current TIO Account balance. Collateral deficiencies can occur in a TIO Account for three reasons:

- a. Collateral held in the account was revalued.
- b. Collateral held in the account received a periodic principal paydown (e.g., mortgage-backed securities or asset-backed securities).
- c. Collateral held in the account either matured or was called.

When a deficient account is identified, the TT&L TSC will inform the TIO participant and require that additional collateral be deposited to cover the deficiency. If additional collateral is not pledged within the designated timeframe, funds will be withdrawn from the participant's TIO Account balance and the Treasury may impose a penalty.

#### 4.9.4 Mergers and Acquisitions

If a depository (the nonsurvivor) participating in the TIO program is merging into another depository (the survivor), instructions concerning the disposition of collateral pledged under the TIO program for the nonsurvivor should be included in the merger information provided by the survivor to its local Reserve bank, which will forward the information to the TT&L TSC for further processing.

If the legal and operational mergers occur on different dates, the nonsurvivor's TIO Account may remain active if the survivor maintains the nonsurvivor's TT&L account as a temporary secondary account. The temporary secondary account will be able to pledge collateral to its TIO Restricted Account(s) until the operational merger date, unless otherwise noted in instructions to the survivor's local Reserve bank. The temporary secondary account may be retained for up to one year after the legal merger

date. If the survivor needs the collateral moved or released before the operational merger date, it should contact the TT&L TSC for further instructions.

On the operational merger date, the TT&L TSC will inactivate the temporary secondary account and authorize the transfer of any collateral pledged for the temporary secondary account according to instructions received from the survivor.

**5. TITLE 31 CFR PART 225 – ACCEPTANCE OF BONDS  
SECURED BY GOVERNMENT OBLIGATIONS IN LIEU OF BONDS WITH SURETIES  
(FORMERLY KNOWN AS CIRCULAR 154)**

**5.1 Purpose and Requirements**

Title 31 CFR Part 225 (225 program) permits government agencies, United States Trustees for Bankruptcy (USTTEE), or bankruptcy courts to accept bonds secured by government obligations in lieu of bonds secured with sureties. The acceptability and valuation of collateral for the 225 program is governed by Title 31 CFR Part 380. The agency official accepting these bonds on behalf of the government agency, USTTEE, or bankruptcy court is referred to as the bond official. Bonds may be required by the above entities from financial institutions that are acting as depositaries or by nonfinancial businesses (both referred to as pledgors or obligors). The bond provides the government with protection should the pledgor default on an obligation to the government agencies, USTTEE or bankruptcy courts.

Under this program, the pledgor has the option of pledging certain government obligations to secure the underlying bond requirement. The pledgor deposits a par amount of securities with a Reserve bank or a Reserve bank–authorized custodian that will provide the same monetary value to the bond official as a bond with sureties, should the pledgor default on the underlying obligation. Any agreements or other requirements for this program are the responsibility of the bond official. Reserve banks act as the custodian of the collateral pledged.

**5.2 Acceptable Collateral**

Acceptable collateral is currently limited to only public debt obligations of the United States Government whose principal and interest are unconditionally guaranteed by the United States Government (excluding stripped components).

The certain classes of transferable securities are acceptable as collateral to secure obligations in lieu of a surety bond, or to secure deposits of bankrupt estates under the jurisdiction of the U.S. Trustees Office or a bankruptcy court or judge. Zero-coupon obligations included in these classes, such as stripped principal and interest components, are currently not acceptable.

For a current listing of acceptable collateral, pledgors should refer to the Treasury's Bureau of the Public Debt's web site at [http://www.treasurydirect.gov/instit/statreg/collateral/collateral\\_225AcceptableCollateralUpdate2.12.07.pdf](http://www.treasurydirect.gov/instit/statreg/collateral/collateral_225AcceptableCollateralUpdate2.12.07.pdf)

For more specific questions about acceptable collateral, institutions should contact the TT&L TSC at 1-888-568-7343 and choose option 2 for collateral.

### **5.3 Collateral Valuation**

A copy of the current collateral margin table is available on the Bureau of the Public Debt's web site (referenced in section 3.2). This table identifies the appropriate margin values for acceptable collateral as approved by the Treasury. For more specific questions about acceptable collateral and its valuation, depositaries should contact the TT&L TSC at 1-888-568-7343 and choose option 2 for collateral.

### **5.4 Restricted Account Maintenance**

#### Opening an Account

Restricted Accounts opened under the 225 program are divided into two distinct groupings.

#### U.S. Trustees for Bankruptcy (USTTEE)

Account designations for the USTTEE have been standardized across all Reserve banks. All USTTEE 225 program Restricted Accounts begin with the letter "S." Each USTTEE region is assigned a region number, which occupies the next two characters, and each office within a region is assigned an alpha character for the

last character of the Restricted Account number. (e.g., S01A refers to the USTTEE for Region 1 and the Boston office.)

For a depository to establish an existing USTTEE 225 program Restricted Account under its Fedwire securities account structure, the depository must contact the USTTEE to ensure that all necessary forms are completed and obtain the 225 program Restricted Account number assigned to that USTTEE office. Then the depository should contact the TT&L TSC to give verbal or written authorization to have the USTTEE 225 program Restricted Account opened on the Fedwire Securities Service.

#### Other Government Agencies and Bankruptcy Courts

Account designations for government agency and bankruptcy court 225 program Restricted Accounts have been standardized across all the Reserve banks. These accounts also have established alphanumeric accounts that begin with the letter "S" to identify the account as part of the 225 program. The government agency is established as the owner of the account and the obligor includes, but is not limited to, an individual, a trust, an estate, a partnership, a corporation, and a sole proprietor. The bond official at the government agency must contact the TT&L TSC for instructions on how to establish a 225 program account.

For a depository to establish an existing bankruptcy court account, the depository needs to ensure that all necessary forms are completed with the respective bankruptcy court. A contact name at the bankruptcy court should be obtained. The depository should also obtain the four-digit alphanumeric character 225 program Restricted Account number from the bankruptcy court. If the bankruptcy court does not have a 225 program Restricted Account currently established, the bond official should contact the TT&L TSC to set up a 225 program Restricted Account. After the 225 program Restricted Account is verified or established, the depository will need to provide the TT&L TSC with verbal or written authorization to have the 225 program Restricted Account opened for its account on the Fedwire Securities Service.

### Closing an Account

A depository must contact the TT&L TSC to close a 225 program Restricted Account. The TT&L TSC will verify with the bond official that there is no further need for the account. Once the TT&L TSC has verified that the bond official no longer requires collateral, the TT&L TSC will have the account closed.

If a government agency no longer requires a 225 program Restricted Account, the bond official should contact the TT&L TSC at 1-888-568-7343, option 2.

### **5.5 Amount To Be Collateralized (ATBC)**

After an account has been opened, the bond official will provide the TT&L TSC with an amount representing the amount of collateral value required for the designated depository. This amount is referred to as the ATBC and can be increased or decreased by the bond official via TT&L Plus or by contacting the TT&L TSC. If a depository disputes this amount, it should contact the bond official. The TT&L TSC cannot change this requirement without written directions to do so from the bond official.

### **5.6 Collateral Monitoring**

Collateral held under the 225 program is monitored based on the collateral value pledged. Depositories pledging collateral under the 225 program need to ensure that the current collateral value will be sufficient to cover the ATBC. TIP begins monitoring collateral at 3 a.m. ET, based on end-of-day collateral values received for all collateral from CMS, and receives updates at approximately 50 minutes past the hour from 10:50 a.m. ET through 5:50 p.m. ET. These collateral values are as of the hour (e.g., the 10:50 a.m. ET update will have collateral values as of 10 a.m. ET).

### 5.6.1 Collateral Deposits *(See Section 2 for additional information.)*

#### Fedwire Securities

A 225 program Restricted Account needs to be opened on Fedwire before securities can be pledged. A depository can initiate transactions through its online access to the Fedwire Securities Service, by contacting the appropriate WOS (when the depository has offline access to the Fedwire Securities Service) or by contacting its correspondent bank (when a correspondent bank handles the depository's security transfers).

#### CMS Collateral

Depositories must contact their local Reserve bank's CMS area to process collateral transactions recorded on this system. Collateral held at DTC, at an authorized third-party custodian or in a local Reserve bank's vault is recorded and valued on CMS.

#### Ineligible Securities

The TT&L TSC will review Fedwire security deposits for eligibility. If the security is ineligible for the 225 program, the depository will be contacted by the TT&L TSC and informed that the collateral is ineligible. A replacement (if needed) should be deposited and a withdrawal request for the ineligible collateral should be submitted. *(See section 5.6.2 on withdrawals for instructions on how to release a security.)* If the withdrawal of ineligible collateral would create a collateral deficiency in the account, the TT&L TSC will not approve the withdrawal request until the depository deposits an eligible substitute of sufficient par value. CMS collateral deposits are currently reviewed by the local Reserve bank. Depositories should contact their local Reserve bank before pledging CMS collateral to ensure that the asset is eligible for the 225 program.

### 5.6.2 Collateral Withdrawals

### Fedwire Securities

A depository can request a withdrawal of securities from its 225 program Restricted Account(s) through the Fedwire Securities Service. The TT&L TSC will review all withdrawal requests and approve only the requests that do not create a collateral deficiency in the account. A depository can initiate withdrawal requests in one of two ways: through online access or through the appropriate WOS for offline depositories.

### CMS Collateral

A depository must contact its local Reserve bank's CMS area to process collateral withdrawal transactions recorded on this system. Collateral held at DTC, with an authorized third-party custodian, or in a local Reserve bank's vault is recorded and valued on CMS and may require additional action for withdrawal.

## 5.6.3 Maturing Collateral

### Fedwire Securities

Proceeds from maturing securities held under a 225 program Restricted Account will not be released for payment to a depository if the remaining collateral value is not sufficient to cover the ATBC. In such cases, proceeds will only be released upon receipt of sufficient replacement collateral from the depository. If the depository questions the account's current ATBC, the TT&L TSC will contact the bond official to verify the requirement. If the bond official adjusts the ATBC such that a deficiency would not occur, the TT&L TSC will release the proceeds to the depository. If the bond official does not adjust the ATBC, the depository will be required to deposit a replacement of sufficient collateral value before the proceeds are released. If a depository still disputes the ATBC, it should contact the bond official directly to resolve the issue. Proceeds will be held by the TT&L TSC in a noninterest-bearing account until sufficient collateral value exists to release the proceeds.

### CMS Collateral

The local Reserve bank's CMS area notifies depositaries of upcoming maturing CMS collateral. The local Reserve bank's CMS area will contact the TT&L TSC for authorization to release maturing CMS collateral held in a 225 program Restricted Account. The maturing collateral will not be released if the remaining collateral value is not sufficient to cover the ATBC for the account.

#### 5.6.4 Collateral Deficiencies

A collateral deficiency occurs when the current collateral value is less than the account's ATBC. Collateral deficiencies may occur in a 225 program Restricted Account for two reasons:

- a. Collateral held in the account was revalued.
- b. Collateral held in the account received a periodic principal paydown (e.g., mortgage-backed securities).
- c. Collateral held in the account either matured or was called.
- d. The bond official increased the ATBC for the account.

When a deficient account is identified during TIP's collateral monitoring process, the TT&L TSC will inform the depositary that additional collateral must be deposited as soon as possible. If the account is held under the government agency structure, the bond official will be contacted to inform them that there is a deficiency in the account due to one of the above mentioned reasons (a-c).

### 5.7 Mergers and Acquisitions

If a depositary (the nonsurvivor) participating in the 225 program is merging into another depositary (the survivor), instructions concerning the disposition of collateral held under any 225 program Restricted Account(s) for the nonsurvivor should be included in the merger information provided by the survivor to its local Reserve bank, which will forward the information to the TT&L TSC for further processing.

If the legal and operational mergers occur on different dates, the nonsurvivor's account will be designated as a temporary secondary 225 program Restricted Account on the legal merger date. The temporary secondary account will maintain the use of its routing number, and will have the recognized insurance coverage for its 225 account balances for the first 6 months after the legal merger date. The survivor will be responsible for ensuring that sufficient collateral is pledged for the temporary secondary account by the end of the 6<sup>th</sup> month after the legal merger date. The temporary secondary account may be retained for up to one year after the legal merger date.

If the survivor requests that the collateral be transferred before the operational merger date, it should contact the TT&L TSC for further instructions.

Prior to the operational merger date, the TT&L TSC will contact the bond officials for the 225 program Restricted Account(s) involved to verify ATBCs and obtain authorization to move the collateral. On the operational merger date after receiving authorization from the respective bond official(s), the TT&L TSC will authorize the transfer of any securities held under the temporary secondary account to the survivor's appropriate 225 program Restricted Account(s).

## 6. ADDITIONAL RESOURCES

- **Financial Management Service (FMS)**  
[www.fms.treas.gov/collateral/index.html](http://www.fms.treas.gov/collateral/index.html)

This web site provides the CFR sections, procedural instructions and other program information, including recent developments. You can also sign up to receive e-mail notification when certain areas of the site are updated.

- **Bureau of the Public Debt (BPD)**  
<http://www.treasurydirect.gov/instit/statreg/collateral/collateral.htm>

Find the latest information on acceptable collateral for each Treasury collateral program, as well as information on collateral valuation. Sign up for e-mail notification when certain areas of the site are updated.

- **Financial Services**  
[www.frbervices.org](http://www.frbervices.org)

This web site gives information on Treasury collateral programs and the Fedwire Securities Service. The Treasury Services Information page will have information on the TT&L programs and the Reserve bank collateral services. The Fedwire Securities page will give current information on the Fedwire Securities Service and provides a Fedwire Securities Guide.

## Processing Timeframes for Fedwire Securities

*Note: Refer to the Financial Services web site at [www.frbervices.org](http://www.frbervices.org) for the most current processing times.*

### Online Transfers

Opening of Fedwire Securities.....	8:30 a.m. ET
Closing time for transfer originations .....	3:15 p.m. ET
Closing time for transfer reversals.....	3:30 p.m. ET
Closing time for repositions against payment.....	4:30 p.m. ET
Closing time for repositions free of payment.....	7 p.m. ET

### Offline Transfers

Begin accepting instructions.....	9 a.m. ET
Cut-off for instructions for current day's processing.....	1:30 p.m. ET
Cut-off for instructions for future day's processing.....	4 p.m. ET

## Processing Timeframes for CMS

Contact your local Reserve bank for cutoff times.