DEPARTMENT OF THE TREASURY

Fiscal Service

31 CFR Part 344

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

U.S. Treasury Securities—State and Local Government Series

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

ACTION: Final rule.

SUMMARY: The Department of the Treasury (Treasury) is issuing this final rule to revise the regulations governing State and Local Government Series (SLGS) securities. SLGS securities are non-marketable Treasury securities that are only available for purchase by issuers of tax-exempt securities. The changes in the final rule prohibit issuers of tax-exempt securities from engaging in certain practices that in effect use the SLGS program as a cost-free option. The final rule also makes other changes that are designed to improve the administration of the SLGS program.

DATES: This final rule is effective August 15, 2005.

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SUPPLEMENTARY INFORMATION:

I. Overview of Rulemaking

On September 30, 2004, Treasury published a notice of proposed rulemaking (NPRM) with request for comments (69 FR 58756, September 30, 2004), proposing changes to the regulations governing U.S. Treasury securities of the State and Local Government Series (SLGS). Treasury intended those changes to address certain practices of investors in SLGS securities that Treasury considered to be an inappropriate use of the SLGS securities program. The comment period was extended to November 16, 2004 (69 FR 62229, October 25, 2004). Treasury received 20 comments by the end of the comment period. After careful consideration of the comments, Treasury is now issuing a final rule that will be effective on August 15, 2005.

In the NPRM, Treasury proposed three main changes to the SLGS program: that it would be impermissible to invest an amount received from the redemption before maturity of a SLGS Time Deposit security at a higher yield, or to use an amount received from the sale of a marketable security to purchase a SLGS security at a higher yield; that subscriptions for purchase of SLGS securities, once submitted, could not be canceled; and that investors in SLGS securities would be required to use the SLGSafe service, Treasury's Internet site for SLGS securities transactions.

In the final rule, Treasury is adopting these proposed changes, but has made some modifications in response to the concerns raised in the comments. In addition, Treasury is changing how the SLGS rates are set. Currently, the SLGS rates are 5 basis points below the current Treasury borrowing rates, as shown in the daily SLGS rate table. In the final rule, SLGS securities rates are defined as 1 basis point below current Treasury borrowing rates, as released daily by Treasury in the SLGS rate table.

The following discussion provides background on the rulemaking, including a more detailed explanation of the specific proposals, addresses most of the comments on those proposals, and describes the changes in the final rule.

II. Background

SLGS securities are a type of non-marketable Treasury security that is available for purchase by state and local governments and other issuers of tax-exempt bonds. SLGS securities have been issued by Treasury since 1972. The purpose of the SLGS program is to assist state and local government issuers in complying with yield restriction and rebate requirements applicable to tax-exempt bonds under the Internal Revenue Code.

Generally, the arbitrage requirements under the Internal Revenue Code provide that with certain exceptions, the proceeds of a tax-exempt bond may not be invested at a yield that is materially higher than the yield on the bond. In the limited circumstances in which bond proceeds may be invested above the bond yield, the bond issuer generally is required to rebate to the Federal Government any earnings in excess of the bond yield.

SLGS securities may only be purchased with eligible funds. Purchasers of SLGS Time Deposit securities that bear interest may generally select any maturity period from 30 days to 40 years, and any interest rate that does not exceed the applicable SLGS rate for that maturity published in the daily SLGS rate table. Since 1996, the maximum SLGS rates have been set at the current Treasury borrowing rate less 5 basis points. Purchasers of SLGS securities have the flexibility to structure the securities with specified payment dates and yields.

In 1996, Treasury revised the regulations governing SLGS securities to eliminate certain requirements that had been introduced at various times since 1972, and to make the program a more flexible and competitive investment vehicle for issuers (61 FR 55690, October 28, 1996). Under the 1996 regulations, Treasury also made a change to permit issuers to subscribe for SLGS securities and subsequently cancel the subscription, without a penalty, under certain circumstances.

In 1997, Treasury amended the regulations to prohibit the use of the SLGS program to create a cost-free option in certain circumstances (62 FR 46444, September 3, 1997). Treasury stated that it was inappropriate to use the SLGS securities program as an option and provided examples of unacceptable practices. These practices included, among others, subscribing for SLGS securities for an advance refunding escrow and simultaneously purchasing marketable securities for the same escrow, with the plan that the marketable securities would be sold if interest rates declined or the SLGS subscription would be canceled if interest rates did not decline.

In the proposed rule published on September 30, 2004 at 69 FR 58756, we indicated that we had become aware of several other practices involving SLGS securities that are also inappropriate uses of the securities and contrary to the purpose of the program. A number of regulatory changes were proposed to address these practices and other miscellaneous items.

One type of practice the NPRM addressed involves the redemption before maturity or sale of securities to reinvest at a higher yield. The ''current Treasury borrowing rates'' and corresponding SLGS rates are set once a day, whereas market interest rates may change throughout the day. In addition, although the SLGS rate table is released at 10:00 a.m. each day, SLGS rates have been set based on a Treasury yield curve determined the previous day. Some market participants have noted that the combination of a constant Treasury borrowing rate and fluctuating market interest rates creates arbitrage opportunities. SLGS investors have utilized these arbitrage opportunities by redeeming SLGS securities before maturity and investing the redemption proceeds in higher-yielding SLGS or marketable securities, and by selling marketable securities and investing the sale proceeds in higher-yielding SLGS securities.

Another type of practice the NPRM addressed, involves the cancellation of subscriptions for the purchase of SLGS securities. A purchaser of SLGS securities may submit a subscription for purchase up to 60 days before the issue date. The subscriber locks in an interest rate based on the daily SLGS rate table on the day the subscription for purchase is submitted. If interest rates rise, subscribers often cancel their subscriptions in accordance with the current regulations and re-subscribe at a higher yield.

The NPRM and this final rule address these and other practices that provide to SLGS investors cost-free options or arbitrage opportunities that are not available in marketable securities. These practices impose substantial costs on the Federal Government. The changes in this final rule will make investments in SLGS securities more closely resemble investment opportunities available in Treasury marketable securities.

III. Proposals, Comments, and Final Rule

As noted above, by the close of the comment period, Treasury had received 20 comment letters on the NPRM. Commenters included state and local issuers, industry associations, financial advisors, and bond counsel. In general, most commenters disagreed with Treasury's proposals to limit the yield on reinvestments and to prohibit cancellation of subscriptions for purchase. A number of commenters made suggestions for modification of those requirements. Some commenters expressed approval of Treasury's proposal to require the use of the SLGSafe® Service (''SLGSafe''). Most of the comments are described in more detail below.

A. Proposals to Address Sale/Redemption Before Maturity and Reinvestment and Related Practices

The current regulations do not prohibit the redemption before maturity of SLGS securities for the purpose of reinvestment at a higher yield. In the NPRM, Treasury stated that it had concluded that the practice of requesting redemption of SLGS securities before maturity to take advantage of relatively infrequent SLGS pricing was an inappropriate use of SLGS securities. Even if undertaken to eliminate negative arbitrage (where bond proceeds have been invested at a yield that is less than the yield on the issuer's bond), Treasury considered the practice to be a cost-free option and inconsistent with the purpose of the program. Treasury stated that there is a direct cost to Treasury because Treasury is not being compensated for the value of the option; that the practice results in volatility in Treasury's cash balances and increases the difficulty of cash balance forecasting and thereby increases Treasury's borrowing costs; and that there are administrative costs. These same concerns apply to transactions in which an issuer sells marketable securities to acquire higher-yielding SLGS securities.

To eliminate these practices, the NPRM proposed several changes. First, the NPRM proposed several changes referred to below as ''yield restrictions.'' Second, the NPRM proposed reducing the number of hours during which subscriptions and certain other transactions could be received in SLGSafe. Third, Treasury indicated that it planned to implement a non-regulatory change to make the rates specified in the daily SLGS rate table more current. Fourth, the NPRM proposed a new provision making it impermissible to purchase a SLGS security with a maturity longer than is reasonably necessary to accomplish a governmental purpose of the issuer.

1. Yield Restrictions

The proposed rule stated that for SLGS securities subscribed for on or after the date of publication of the final rule, it would be impermissible to invest any amount received from the redemption before maturity of a SLGS Time Deposit security at a yield that exceeds the yield used to determine the amount of redemption proceeds for such Time Deposit security. It would also be impermissible 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 being purchased exceeds the yield at which such marketable security is sold or redeemed.

In addition, upon starting a subscription for a SLGS security, a subscriber would be required to certify that (A) if the issuer is purchasing a SLGS security with the proceeds of 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) if the issuer is purchasing a SLGS security with proceeds of the redemption before maturity of a Time Deposit security, the yield on the SLGS security being purchased does not exceed the yield used to determine the amount of redemption proceeds for such redeemed security. Upon submission of a request for redemption before maturity of a Time Deposit security subscribed for on or after the date of publication of the final rule, the issuer would be required to certify that no amount received from the redemption would be invested at a yield that exceeds the yield used to determine the amount of redemption proceeds for such Time Deposit security. Treasury also proposed a definition of ''yield'' that would apply to the certifications and would require that, in comparing the yield of a SLGS security to the yield of a marketable debt instrument, the yield of the marketable debt instrument would be computed using the same compounding intervals and financial conventions used to compute interest on the SLGS security.

The majority of the commenters addressed this proposal. Thirteen commenters suggested that the proposed yield restrictions were unnecessary, given the other changes. One comment, for example, stated that municipalities should be able to redeem SLGS securities for the mitigation of negative arbitrage. The commenters also stated that the yield restriction provisions would have the unintended consequence of making the SLGS program less attractive for issuers. Several commenters expressed concerns that the proposed changes would prevent issuers from restructuring escrows.

One commenter asked for clarification of the prohibition on the sale of marketable securities to purchase higher-yielding SLGS securities and suggested that it is a common practice for issuers to liquidate sinking fund and debt service reserve fund investments for refunded bonds for use in a refunding escrow, a practice that is recognized in the current Income Tax Regulations. Another commenter noted that 26 CFR 1.148–5(d)(6)(iii) provides a safe harbor for the purchase of open market securities for a yield-restricted investment only if the lowest cost bona fide bid is not greater than the cost of the most efficient portfolio comprised exclusively of SLGS securities at the time bids are received. This commenter stated that the interplay between the SLGS regulations and the safe harbor bidding rules could, under certain market conditions, force an issuer to invest in SLGS securities with negative arbitrage with no prospect of being able to recoup any of the negative arbitrage (as a result of the yield restrictions on redemption of the SLGS securities before maturity).

In addition to these general concerns, several commenters offered suggestions for specific modifications to the yield restriction proposals. Four commenters suggested that the yield restrictions on reinvestment should expire after the original maturity date of the investment that is sold or redeemed before maturity. Some commenters proposed excluding zero interest Time Deposit securities from the yield restriction provisions. Two commenters also suggested substituting the definition of ''yield'' in 26 CFR 1.148–5 for the definition proposed in the NPRM. Treasury also received comments that certain provisions, including the provisions on yield certifications, should have a delayed effective date to allow subscribers time to adjust their practices and systems.

After consideration of these comments, Treasury has decided to retain the NPRM provisions on yield restrictions and corresponding certifications, with some modifications. In Treasury's view, these restrictions are necessary to curb the use of the SLGS program as a cost-free option. Other alternatives do not achieve this goal or may be unworkable for other reasons.

The final rule does not provide that the yield restrictions expire after the original maturity date of the investment that is sold or redeemed. Such an approach could be difficult to administer in the case of multiple sales or redemptions and re-investments, and in some cases could be overly-restrictive. However, the final rule contains two new examples that clarify that if amounts received from the sale or redemption of an investment (the first investment) are invested in a second investment with a maturity date that precedes the maturity date of the first investment, and the investor holds the second investment to maturity, then the yield restrictions expire at the maturity of the second investment if the other requirements of the final rule are met (including the requirement that the SLGS program not be used to create a cost-free option). Thus, an issuer that invests tax-exempt bond proceeds in SLGS securities that produce negative arbitrage is not precluded from subsequently investing those proceeds in higher-yielding marketable securities (for example, marketable securities that have a lower credit rating than Treasury securities) if the requirements of the final rule are met.

In addition, the final rule does not preclude issuers from restructuring escrows, provided that the yield restrictions are met. Under the final rule, marketable securities in a sinking fund or debt service reserve fund for refunded bonds are subject to the same yield restrictions that apply to other marketable securities.

The final rule also specifically excludes zero interest Time Deposit securities from the yield certification provisions in § 344.2(e)(2)(i)(B) and (e)(2)(ii) and the yield restrictions in the impermissible practice provision in § 344.2(f). Thus, under the final rule, the yield restriction provisions will not apply to amounts received from the redemption of zero interest Time Deposit securities.

In response to comments about the definition of yield, the final regulations incorporate the definition of ''yield'' in 26 CFR 1.148–5.

As noted above, given the number of changes that the final rule encompasses, Treasury has decided to make the final rule effective on August 15, 2005. This delayed effective date is intended to provide investors with sufficient time to review the final rule and make any necessary adjustments to their systems or processes.

2. SLGSafe Hours

Under the current rule, the SLGSafe service is available for most transactions from 8 a.m., Eastern time until 10 p.m., Eastern time. (Subscribers currently may submit subscriptions by facsimile at any time.) The NPRM proposed that SLGSafe subscriptions, requests for early redemption of Time Deposit securities, and requests for redemption of Demand Deposit securities would only be received from 10 a.m. to 6 p.m., Eastern time on business days. This proposal, combined with the proposal to make SLGSafe mandatory, shortened the window during which transactions could be effected.

Treasury received 12 comments expressing concern that the reduction in hours would not allow enough time for subscribers to complete their verification processes. Some commenters also indicated that West coast issuers would be at some disadvantage with narrower trading hours.

In response to these concerns, Treasury has revised § 344.3(g) of the final rule to extend the amount of time in which the SLGSafe window will be open. All SLGSafe subscriptions, requests for early redemption of Time Deposit securities, and requests for redemption of Demand Deposit securities must be received on business days no earlier than 10 a.m. and no later than 10 p.m., Eastern time.

3. SLGS Rates More Current

Under the current rule, the SLGS rate table is released to the public by 10 a.m., Eastern time, each business day. Treasury did not propose any change to this rule but indicated in the NPRM that it intended to make the rates specified in the daily SLGS rate table more current.

Although most commenters did not disagree with the administrative proposal to make the SLGS rates more current, several commenters suggested that such a change was sufficient to address Treasury's concerns in the rulemaking and that other proposed changes were therefore unnecessary. These commenters suggested that the establishment of more current SLGS rates would minimize opportunities to take advantage of differences between SLGS rates and market rates. However, the potential to take advantage of these differences will still exist even after the administrative change to make SLGS rates more current is effected, because SLGS rates will be held constant for twelve hours, from 10 a.m. to 10 p.m., Eastern time. Therefore, the administrative change will not address these issues entirely.

4. Maturity Longer Than Necessary

The NPRM proposed a new provision making it impermissible to purchase a SLGS security with a maturity longer than is reasonably necessary to accomplish a governmental purpose of the issuer. Treasury received 2 comments stating that the provision was vague or would be difficult to administer.

The NPRM was intended to address a practice where an issuer, apparently acting on the basis of its view on the direction of interest rates, would purchase a SLGS security with a maturity much longer than necessary for its governmental purpose, and then redeem the security before maturity. After further consideration, we have deleted this provision from the final rule, particularly in light of the risk to the issuer of purchasing a SLGS security with a maturity longer than reasonably necessary to accomplish a governmental purpose.

B. Proposals To Address Cancellations of SLGS Securities Subscriptions and Related Practices

Under the current rule, SLGS investors may subscribe for SLGS securities up to 60 days in advance of the issue date and lock in the SLGS rate on the subscription date. Subscriptions may be canceled, up to 5 or 7 days prior to issuance (depending on the amount involved), without penalty.

In the NPRM, Treasury noted that a large volume of cancellations of SLGS subscriptions had been submitted for the apparent purpose of re-subscribing at a higher yield. Treasury also noted that issuers had also submitted multiple initial subscriptions for a single issue date and had later canceled some of those subscriptions, apparently because of reductions in the size of advance refunding transactions due to changes in market conditions. Other investors had subscribed for SLGS securities, later canceling the subscription or amending the size when rates moved favorably or unfavorably. In other cases, subscriptions were canceled because agents had subscribed for SLGS securities even though the issuer had not authorized the issuance of tax-exempt bonds.

Currently, nearly half of all SLGS subscriptions are canceled. Between October 1, 2003, and September 30, 2004, 48 percent of the 14,317 subscriptions were canceled; the dollar volume of cancellations was $309 billion. This compares to about $160 billion in total SLGS securities outstanding. (By way of comparison as to volume, the federal deficit in fiscal year 2004 was $413 billion.)

The NPRM proposed several changes to address cancellations. First, cancellations would be prohibited unless the subscriber established, to the satisfaction of Treasury, that the cancellation was required for reasons unrelated to the use of the SLGS program to create a cost-free option. Second, for all subscriptions submitted for SLGS securities on or after the date of publication of the final rule, a change in the aggregate principal amount originally specified in the subscription could not exceed ten percent. Third, the NPRM proposed that once an issuer selects an issue date for SLGS securities, it cannot be changed. Fourth, the NPRM proposed that a subscriber be required to certify, upon starting a SLGS subscription, that the issuer has authorized the issuance of the state or local bonds. The subscriber would also be required to enter a description of the tax-exempt bond issue in SLGSafe.

1. Prohibition on Cancellations

Treasury received 15 comments addressing the proposed prohibition on cancellations. All of these comments disagreed with this change and most expressed a desire to retain some form of the current cancellation option, even if more limited than under the current provisions.

Treasury received comments to the effect that an implicit option is an incentive for investment in SLGS securities, and that issuers will be forced to purchase marketable securities. The commenters pointed out that this is a potentially undesirable outcome for Treasury because Treasury has an interest in preventing yield-burning and other unacceptable practices involving marketable securities. In other words, if investors are not encouraged to use the SLGS program, the IRS may be required to devote additional resources to compliance and enforcement.

Treasury also received comments suggesting that the SLGS program reduces Treasury's borrowing costs by virtue of the 5 basis point differential that exists between SLGS rates and Treasury borrowing rates. One commenter estimated that Treasury's cost savings from the SLGS program was about $80 million per year, based on current rates and SLGS outstanding. The commenter stated that eliminating the cancellation option might reduce SLGS program participation and impact that cost savings.

The commenters also suggested a variety of alternatives to the prohibition on cancellations, including allowing cancellations up to a maximum dollar amount and prohibiting multiple subscriptions for the same bond issue; limiting the number of cancellations that can be submitted with respect to a given bond issue; allowing the use of the highest of the daily SLGS rates within a specified number of days; and providing for one or a certain number of allowable cancellations. In addition, one comment asked for clarification as to how issuers would satisfy the requirement that a cancellation is not related to the use of the program to create a cost-free option.

After consideration of these comments, Treasury remains concerned that the current option to cancel a subscription imposes substantial costs on Treasury and U.S. taxpayers. These costs include not only the costs of the option and administrative costs, but also the costs to Treasury as an issuer of marketable securities.

In Fiscal Year 2004, Treasury held 215 auctions of marketable Treasury securities and issued $4.6 trillion in securities. Because of the size of its issuance, Treasury accomplishes its goal of financing government borrowing needs at the lowest cost over time by issuing debt in a regular and predictable pattern. Treasury seeks to minimize uncertainty about the supply of a security being issued. Uncertainty in supply causes bidders in Treasury auctions to demand a risk premium, which Treasury pays in the form of higher interest rates on the securities it issues. Given the size of Treasury's issuance of marketable Treasury securities, even small risk premiums can create large additional interest costs. For this reason, volatility in cash balances is undesirable. Cancellations of SLGS subscriptions increase cash balance volatility, which has an adverse impact on the certainty of the supply of marketable securities, and which in turn results in increased borrowing costs for marketable securities.

We note that the submission of subscriptions on or shortly before the subscription deadline (5 or 7 days before the issue date) results in Treasury having the same notice of subscriptions as it currently does for cancellations. However, the impact of an unexpected increase in cash balances from SLGS subscriptions that settle within five to seven days is significantly less than the impact of unexpected cancellations, particularly since the cancellations are rate sensitive and tend to come in clusters when rates move dramatically over a short period of time. In the case of unexpected cancellations, additional unexpected marketable securities have to be issued to make up for the decline in expected SLGS securities. This additional issuance generally increases Treasury's borrowing costs.

With respect to the 5 basis point differential between SLGS rates and Treasury borrowing rates, that is only one portion of the entire cost structure that must be considered in evaluating the potential impact of the cancellation option on the SLGS program. Other costs include the option costs, the impact on marketable borrowing, and administrative costs.

The 5 basis point differential does not represent an option price. As Treasury stated in the 1997 revision to the regulations, the prices established by Treasury for the SLGS securities do not include the cost of an option (62 FR 46444, September 3, 1997). Prior to 1996, the differential was 12.5 basis points. As the costs of administering the program have decreased, Treasury has decreased the amount of the differential. In 1996, it was reduced to 5 basis points. As noted above, in the final rule, Treasury is reducing the basis point differential to 1 basis point below current Treasury borrowing rates. This change reflects increased efficiencies in the program, primarily through the use of SLGSafe, and will make SLGS investments more closely resemble marketable securities. Treasury is making a comparable change reducing the amount of Treasury's administrative costs for administering demand deposit SLGS securities in a **Federal Register** notice that will be published before the effective date of this final rule.

Concerning the various suggestions in the comments for alternatives to the prohibition on cancellations, Treasury has considered these alternatives, but has concluded that even a limited use of the option can have significant adverse effects on cash balances and cash balance forecasts. This is because, as explained above, large numbers of SLGS investors often tend to use the option at the same time, in reaction to interest rate movements. Treasury has also examined the possibility of pricing the option and has determined that establishing a pricing structure would not be feasible.

For all of the above reasons, Treasury is adopting the proposed rule prohibiting cancellations. The final rule provides that a subscriber cannot cancel unless it is established, 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.

2. Changing Principal Amounts

Under the current rule, a subscriber may change the aggregate principal amount specified in the initial subscription up to $10 million or ten percent, whichever is greater. The NPRM proposed that subscribers could only change the principal amount by 10 percent above or below the amount originally specified.

Treasury received 10 comments disagreeing with the proposed change. Many commenters indicated they did not understand the reason Treasury was considering this change. Many commenters also expressed concern that on the subscription date, issuers can estimate, but may not be able to precisely identify, the exact dollar amount of the SLGS securities needed to fund a transaction. Some commenters also suggested that the proposed rule would disproportionately and adversely impact the activities of smaller issuers, who typically issue small amounts.

After careful consideration of these comments, Treasury has decided to adopt the size amendment provision set forth in the proposed rule. The proposal was intended to preclude a practice by some investors who used the dollar amount limits on amendment of subscriptions to structure option transactions designed to capitalize on interest rate movements during the subscription period. In addition, by limiting the amount of possible change of subscriptions to 10 percent of the principal, Treasury is able to ensure that its cash balance forecasting will not be adversely impacted by more than a certain, predetermined percentage. Furthermore, a set dollar amount limit, as opposed to a percentage limit, would leave open the possibility for subscribers to break up their subscriptions into multiple smaller subscriptions in order to avoid the cap on changes to the aggregate principal amount.

3. Issue Date Changes

Under the current rule, investors are allowed to amend a Time Deposit subscription by extending the issue date up to seven days after the issue date originally specified. Investors are asked to notify Treasury by 3:00 p.m., Eastern time, one business day before the original issue date of any changes. The proposed rule would no longer permit a change to the issue date.

Treasury received 15 comments disagreeing with this change. Commenters were concerned about having a 6-month penalty imposed upon them for not taking delivery on the issue date and pointed out that the issue date must sometimes be delayed due to circumstances beyond their control.

The final rule permits a change to the issue date up to seven days after the original issue date if it is established to the satisfaction of Treasury that the 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).

4. Mandatory Certification That Municipal Bonds Have Been Authorized

The NPRM proposed a new requirement that a subscriber certify, upon starting a SLGS subscription, that the issuer had authorized the issuance of the state or local bonds. Treasury received 2 comments in favor of this proposal and 2 comments disagreeing with this proposal. Some commenters suggested that the term ''authorization'' has different meanings in various jurisdictions and that applying the term uniformly across the jurisdictions was problematic.

Because Treasury has retained in the final rule the provision prohibiting cancellations of subscriptions, we have determined that this certification is unnecessary. We are therefore eliminating it from the final rule. Treasury is adopting the requirement proposed in the NPRM that issuers briefly describe the underlying bond transaction when beginning a subscription in SLGSafe.

C. Administrative Changes

In the NPRM, Treasury also noted that it had reviewed other aspects of the SLGS program and proposed several changes to better administer the program.

1. Pricing Longer-Dated SLGS Securities

Under the current rule, SLGS rates are determined based upon the current Treasury borrowing rate. Because the current Treasury borrowing rate is based on the prevailing market rate for a Treasury security with the specified period to maturity and SLGS securities are offered for terms in excess of the currently issued Treasury securities, Treasury examined whether it needed to alter the manner in which it sets the SLGS rate for these longer-dated securities.

In the proposed rule, Treasury proposed broadening the definition of ''current Treasury borrowing rate'' to allow Treasury to use suitable proxies and/or a different rate-setting methodology where SLGS rates are needed for maturities which are not currently being issued by Treasury. Two comments were received on this change, both of which supported Treasury's proposal. In the final rule, Treasury is adopting the provision for pricing longer-dated SLGS securities as it was set forth in the NPRM. We contemplate no changes in methodology at this time.

2. Notices of Redemption

In the current rule, a notice of redemption must be received by Treasury no less than 10 days and no more than 60 days before the requested redemption date. In the proposed rule, Treasury proposed changing the 10-day advance notice requirement for early redemption of Time Deposit securities to a 14-day advance notice requirement. Treasury received one comment, which agreed that a 14-day notice period is beneficial for Treasury. In the final rule, Treasury adopts the provision as it was set forth in the NPRM.

The existing rule prohibits cancellation of redemption notices. The proposed rule made no change to that provision. Treasury received one comment suggesting that cancellation of redemption notices should be allowed, provided sufficient notice is given to Treasury. This suggestion, if adopted, would create a cost-free option. Accordingly, we have made no changes to the final rule in this regard.

Furthermore, Treasury is also clarifying § 344.6(c) to explicitly provide that Treasury will not accept a request for early redemption for a security that has not yet been issued.

3. Mandating SLGSafe Transactions

Under the current rule, subscribers are able to submit their subscriptions to

Treasury either via SLGSafe or through the use of paper forms that are either faxed or mailed in. The proposed rule stated that the use of the SLGSafe service would be mandatory as of the effective date of the final rule.

Treasury received 5 favorable comments agreeing that use of the SLGSafe service should be mandatory and that it will improve efficiency in the SLGS program. One comment characterized this change as constructive and workable; another said that it would streamline operations and would not impair local governments' access to the program. Another current SLGSafe user commented that it is convenient and easy to use. Treasury also received 5 comments inquiring about SLGSafe implementation, which are described below.

Two comments stated that owners of SLGS securities issued before the effective date of the final rule should be allowed to administer these securities via fax or mail. By introducing SLGSafe, Treasury fulfilled the requirement under the Government Paperwork Elimination Act, Sec. 1701–1710, Pub. L. 105–277, 112 Stat. 2681–749 to 2681–751 (44 U.S.C. 3504 note) that executive agencies provide for the option of electronic submissions instead of paper. We note that SLGS securities may be issued for periods of up to 40 years. To allow all current owners of outstanding SLGS securities to continue to use fax and mail instead of SLGSafe for those securities could prevent full implementation of the SLGSafe program for up to 40 years.

One comment expressed a concern that certain technical issues must be addressed before making SLGSafe mandatory. Although the exact nature of the access issues was not identified, we note that BPD has successfully enrolled 1,100 current users of SLGSafe. Any specific access issues should be addressed directly to BPD.

Another comment stated that there should be a ''good cause'' exception that allows users to perform transactions via fax or mail when a valid reason for the exception exists. One comment stated that individual users and one-time agents should not be required to use the SLGSafe service. The NPRM and the final rule contemplate in § 344.3(f)(3) that Treasury will permit SLGS program users to submit fax and mail transactions if you establish that good cause exists for not using SLGSafe. However, given the ease of becoming a SLGSafe user, we do not anticipate granting waivers based on a user's status as a small firm or infrequent subscriber.

One comment stated that SLGSafe should not become mandatory for at least 180 days so that users can learn how the SLGSafe service operates. Because the SLGSafe service was introduced in 2000, we do not believe that a delayed implementation date of 180 days is necessary (65 FR 55399, September 13, 2000). Moreover, in the NPRM, we encouraged subscribers to seek SLGSafe access as soon as possible (69 FR 58756, September 30, 2004). Treasury therefore adopts the provision of the proposed rule that makes SLGSafe mandatory. However, in order to mitigate any access concerns, SLGSafe will not become mandatory until August 15, 2005. We encourage potential users to contact BPD about any access or training difficulties as soon as possible so that they can be addressed before the effective date.

4. Miscellaneous Changes

Eligible source of funds for purchasing SLGS securities. Under the current rule, SLGS securities are offered for sale to provide issuers of tax-exempt securities with investments from any amounts that (1) constitute gross proceeds of an issue (within the meaning of 26 CFR 1.148–1) or (2) assist in complying with applicable provisions of the Internal Revenue Code relating to the tax exemption. In the NPRM, Treasury proposed deleting the language relating to amounts that assist in complying with applicable provisions of the Internal Revenue Code relating to the tax exemption because this language proved to be difficult to administer. Treasury received 13 comments stating that the permissible sources of funds allowable to purchase SLGS securities should not be altered or should be amended to accommodate certain transactions. The comments noted, for example, that certain amounts that are not ''gross proceeds'' at the time of subscription may be characterized as gross proceeds at a later time, and that certain funds may not be gross proceeds at all times as a result of the ''universal cap'' on the maximum amount treated as gross proceeds under 26 CFR 1.148–6(b)(2). In response to these comments, the final regulations provide that issuers may purchase SLGS securities using any of the following ''eligible sources of funds'': (1) Any amounts that constitute gross proceeds of a tax-exempt bond issue or are reasonably expected to become gross proceeds of a tax-exempt bond issue; (2) any amounts that formerly were gross proceeds of a tax-exempt 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-exempt 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 taxable bond issue that refunds a tax-exempt bond issue or is refunded by a tax-exempt bond issue; or (5) any other amounts that are subject to yield limitations under the rules applicable to tax-exempt bonds under the Internal Revenue Code.

Definition of Issuer. Only issuers of tax-exempt securities are eligible to purchase SLGS securities. Under the current rule, an issuer is defined as the Governmental body that issues state or local government bonds described in section 103 of the Internal Revenue Code. The NPRM did not propose any alteration to this definition. However, one commenter raised a concern that a nonprofit entity that issues bonds on behalf of a state or local government in compliance with Revenue Ruling 63–20, 1963–1 C.B. 24, and Revenue Procedure 82–26, 1982–1 C.B. 476, might not qualify as an ''issuer.'' In response to this comment, Treasury is amending the definition of ''issuer'' in the final rule to mean the Government body or other entity that issues state or local government bonds described in section 103 of the Internal Revenue Code. Thus, under the final rule, an ''issuer'' includes not only a state or local government that issues tax-exempt bonds, but also an entity that issues tax-exempt bonds on behalf of a state or local government.

Debt Limit. Although the NPRM did not address debt limit issues, several commenters suggested that Treasury should provide advance notice before suspending the issuance of SLGS securities during a period when Treasury 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. While Treasury notes these concerns, and appreciates the difficulties issuers may face in these circumstances, Treasury must retain the flexibility that the current rules provide to deal with the various issues that arise during periods when sales are suspended because of debt limit constraints. Accordingly, we have made no change to the final rule in this regard. If feasible under the circumstances, however, we will attempt to provide SLGS purchasers with advance notice of a suspension in sales.

Subscriptions for Zero-Interest SLGS Securities. The current regulations provide that an issue date cannot be more than 60 days after the date that the subscription is received. Two commenters suggested that subscribers be permitted to submit subscriptions for zero-interest SLGS securities more than 60 days before the issue date. These commenters indicated that such a change would assist in tax compliance because issuers' agents would be able to avoid an inadvertent failure to invest, at some future date, the proceeds of maturing securities in an escrow in zero-interest SLGS securities. This suggestion is beyond the scope of this rulemaking, but Treasury is studying this matter.

Sanctions for Erroneous Certifications. The existing rule requires an agent of the issuer to certify that it is acting under the issuer's specific authorization when subscribing for SLGS securities. The proposed rule made no change to this provision, but required other certifications discussed above.

One commenter raised a concern that the proposed rule was not clear on whether an agent would be subject to sanctions for improper certifications. The concern is that subscribers for SLGS securities, who frequently are escrow agents operating under the authority of issuers, may be required to make the certifications.

The final rule clarifies that under § 344.2(m)(4), Treasury reserves the right to declare either a subscriber or issuer ineligible to subscribe for securities under the offering if deemed to be in the public interest and a security is issued on the basis of an improper certification or other misrepresentation (other than as the result of an inadvertent error).

The final rule also clarifies the language of the certification in § 344.2(e)(1) to cover an agent's performance related to other transactions in addition to the submission of subscriptions on the issuer's behalf.

Significance of Rule. In the preamble to the proposed rule, Treasury stated that the rulemaking is not a significant regulatory action under Executive Order 12866, dated September 30, 1993, and is not a major rule under 5 U.S.C. 804. Treasury received several comments disagreeing with these conclusions. The rulemaking is not a significant regulatory action or major rule because the SLGS program is a voluntary program to assist state and local government issuers in complying with yield restriction and rebate requirements applicable to tax-exempt securities under the Internal Revenue Code. The SLGS rule sets the terms and conditions for the SLGS program.

Treasury received no comments on the other proposed changes affecting §§ 344.0(b), 344.2(d), 344.2(h)(2), 344.2(i), 344.2(m), 344.3(d), 344.3(f), 344.3(g), 344.4(a), 344.5, 344.6(a), 344.6(c), 344.6(f), 344.7(a), 344.9(a), 344.9(c), and 344.11. Treasury is implementing all of these administrative revisions as they appeared in the NPRM.

IV. Procedural Requirements

A. Executive Order 12866

This final rule is not a significant regulatory action for purposes of Executive Order 12866, dated September 30, 1993.

B. Regulatory Flexibility Act

This final rule relates to matters of public contract and procedures for United States securities. Therefore, under 5 U.S.C. 553(a)(2), the notice and public procedure requirements of the Administrative Procedure Act are inapplicable. Because a notice of proposed rulemaking is not required, the provisions of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.*, do not apply.

C. Paperwork Reduction Act

Collections of Information on SLGSafe and Cancellations. The collections of information in the proposed regulation were submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act (44 U.S.C. 3501 *et seq.*). In the preamble to the proposed regulation, we explained that the collections of information, which are in §§ 344.3(f)(3), 355.5(c), and 344.8, are required (1) to determine whether there is good cause for an investor to submit subscriptions by fax or mail rather than electronically in SLGSafe and (2) to establish that a cancellation of a subscription is required for reasons unrelated to the use of the SLGS program to create a cost-free option. The estimated annual burden per respondent/recordkeeper is .25 hours, depending on individual circumstances, with an estimated total annual burden of 250 hours. No comments were received concerning the collections of information.

The final rule contains the same information collection requirements that Treasury proposed in the NPRM. They have been approved by OMB under OMB control numbers 1535–0091 (the collection of information to establish a valid reason for a waiver of the requirements of the SLGS regulations) and 1535–0092 (the collection of information taken from subscribers on the forms associated with the SLGS program). Comments on the accuracy of our burden estimate, and suggestions on how this burden may be reduced, may be sent to BPD, attention Keith Rake, Deputy Assistant Commissioner, Office of the Assistant Commissioner, Bureau of the Public Debt, 200 3rd St., P.O. Box 396, Parkersburg, WV 26106–0396.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number.

Collection of Information on a Change of Issue Date. The final rule also contains a new collection of information that was not in the proposed rule. This new collection has been reviewed and, pending the receipt of public comments, approved by OMB under control number 1535–0091.

The current rule permits issuers to select the issue date of SLGS securities. The issuer may change the issue date up to seven days after the original issue date initially requested, provided that BPD is notified one business day before the original issue date. The proposed rule stated that issue dates could not be changed. The final rule retains some flexibility for an issuer to change the issue date up to seven days after the original issue date if it is established to the satisfaction of Treasury that the change is required as a result of circumstances that were unforeseen at the time of the subscription and which are beyond the issuer's control (for example, a natural disaster).

The new collections of information in the final rule are in §§ 344.5(d) and 344.8(a). By collecting information about these circumstances, BPD will be able to evaluate if the regulatory standard of unforeseen circumstances has been met. The likely respondents are state or local governments.

Because of the limited number of instances when a change in issue date may be sought, Treasury estimates that 500 investors will each make one request annually for a total of 500 requests.

The information required by Treasury in connection with a change in issue date is similar to the type of information contemplated in the proposed rule in §§ 344.3(f)(3), 344.5(c), and 344.8(c). Because of the familiarity of SLGS investors with the current procedures and the infrequency of the instances in which a change in issue date will be sought, the burden associated with compiling and submitting such information to Treasury is relatively modest.

Estimated total annual reporting and/or recordkeeping burden: 125 hours.

Estimated average annual burden hours per respondent and/or recordkeeper: .250 hours.

Estimated number of respondents and/or recordkeepers: 500.

Organizations and individuals desiring to submit comments concerning the collection of information in the final rule should direct them to the Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, DC 20503 (preferably by FAX to 202–395–6974, or by e-mail to *Alexander_T._Hunt@omb.eop.gov*). A copy of the comments should also be sent to the Bureau of the Public Debt at the addresses previously specified. Comments on the collection of information should be received by August 1, 2005.

Treasury specifically invites comments on: (a) Whether the new collection of information is necessary for the proper performance of the mission of Treasury, and whether the information will have practical utility; (b) the accuracy of the estimate of the burden of the collections of information; (c) ways to enhance the quality, utility, and clarity of the information collection; (d) ways to minimize the burden of the information collection, including through the use of automated collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to maintain the information.

List of Subjects in 31 CFR Part 344

Bonds, Government Securities, Securities.

■ For the reasons set forth in the preamble, we amend 31 CFR part 344 by revising subparts A through D to read as follows (Appendices A and B to part 344 remain unchanged):

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

Subpart A—General Information

Sec.

LGSafe® Service

Subpart B—Time Deposit Securities

Subpart C—Demand Deposit Securities

Subpart D—Special Zero Interest Securities

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.

Subpart A—General Information

§ 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-exempt securities with investments from any eligible source of funds (as defined in § 344.1).

(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.

(3) *Special Zero Interest securities.* Special Zero Interest securities, which were discontinued on October 28, 1996, were issued as:

(i) Certificates of indebtedness; or

(ii) Notes.

(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.

§ 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.

BPD's Web site refers to *http://www.slgs.gov.*

Business day(s) means Federal business day(s).

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 constitute gross proceeds of a tax-exempt bond issue or are reasonably expected to become gross proceeds of a tax-exempt bond issue;

(2) Any amounts that formerly were gross proceeds of a tax-exempt 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-exempt 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 taxable bond issue that refunds a tax-exempt bond issue or is refunded by a tax-exempt bond issue; or

(5) Any other amounts that are subject to yield limitations under the rules applicable to tax-exempt bonds under the Internal Revenue Code.

Issuer refers to the Government body or other entity that issues state or local government bonds described in section 103 of the Internal Revenue Code.

SLGS rate means the current Treasury borrowing rate, less one basis point, as released daily by Treasury in a SLGS rate table.

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

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

Public Debt (BPD). 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.

§ 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 BPD.

(c) *Besides BPD, 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, Demand Deposit, or Special Zero Interest, 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 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.

(f) *What are some practices involving SLGS securities that are not permitted?* (1) *In General.* For SLGS securities subscribed for on or after August 15, 2005, it is impermissible:

(i) To use the SLGS program to create a cost-free option;

(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; or

(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.

(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. In order to reduce or eliminate this negative arbitrage, the issuer subscribes for SLGS securities for purchase in sixty 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 tax-exempt bond proceeds in 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.

(g) *When and how do I pay for SLGS securities?* You must submit full payment for each subscription to BPD 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. For these transactions, BPD's ABA Routing Number is 051036476.

(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 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 BPD?* BPD's contact information is posted on BPD's Web site. (1) *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 SLGSafe 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.

(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.

SLGSafe® Service

§ 344.3 What provisions apply to the SLGSafe Service?

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

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

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

(1) SLGSafe Application for Internet Access and SLGSafe User Acknowledgment; and

(2) SLGSafe User's Manual.

(d) *Who can apply for SLGSafe 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 BPD for SLGSafe access. Other potential users of SLGSafe include, but are not limited to, underwriters, financial advisors, and bond counsel.

(e) *How do I apply for SLGSafe access?* Submit to BPD a completed SLGSafe Application for Internet Access. The form is found on BPD's Web site.

(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 BPD 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 BPD 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 BPD'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.

Subpart B—Time Deposit Securities

§ 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 indebtedness 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. If the SLGS rate table is not available at that 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 BPD's Application server.

(3) *Where can I find the SLGS rate table?* The SLGS rate table can be obtained at BPD'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 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.

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

(a) *When is my subscription due?* The subscriber must fix the issue date of each security in the subscription. The issue date must be a business day. The issue date cannot be more than sixty days after the date BPD receives the subscription. If the subscription is for $10 million or less, BPD must receive a subscription at least five days before the issue date. If the subscription is for over $10 million, BPD must receive the subscription at least seven days before the issue date.

Example to paragraph (a): If SLGS securities totaling $10 million or less will be issued on November 16th, BPD must receive the subscription no later than November 11th. If SLGS securities totaling more than $10 million will be issued on November 16th, BPD must receive the subscription no later than November 9th. In all cases, if SLGS securities will be issued on November 16th, BPD will not accept the subscription before September 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) The title of an official authorized to purchase SLGS securities;]

(5) A description of the tax-exempt bond issue; and]

(6) The certification 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 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 to require issuance earlier or later than the issue date originally specified; provided, however, you may change the issue date up to seven 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 aggregate principal amount originally specified in the subscription by more than ten percent; and

(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.

(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 by the various maturities, interest rates, and first interest payment dates (in the case of notes and bonds);

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

(4) Not be paid with proceeds that are derived, directly or indirectly, from the redemption before maturity of SLGS securities subscribed for on or before December 27, 1976;

(5) Include the certifications required by § 344.2(e)(2)(i) (relating to yield); and

(6) Include the information required under paragraph (b), if not already provided.

(f) *When must I complete the subscription?* BPD must receive a completed subscription on or before 3:00 p.m., Eastern time, on the issue date.

§ 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.

(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). BPD 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, 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 maturity 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.

(g) *How do I calculate the amount of redemption proceeds for subscriptions on or before December 27, 1976?* For bonds subscribed for on or before December 27, 1976, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* The interest for the entire period the bond was outstanding shall be recalculated if the original interest rate at which the bond was issued is higher than an adjusted interest rate reflecting both the shorter period during which the bond was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issue for a marketable Treasury bond maturing on the semi-annual maturity period before redemption reduced by a penalty which must be the lesser of:

(i) One-eighth of one percent times the number of months from the date of issuance to original maturity, divided by the number of full months elapsed from the date of issue to redemption; or

(ii) One-fourth of one percent.

(2) *Deduction.* We will deduct from the redemption proceeds, if necessary, any overpayment of interest resulting from previous payments made at a higher rate based on the original longer period to maturity.

Subpart C—Demand Deposit Securities

§ 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 are the SLGS rates for Demand Deposit securities determined?* Each security shall bear a variable rate of interest based on an adjustment of the average yield for three-month Treasury bills at the most recent auction. A new rate is effective on the first business day following the regular auction of three-month Treasury bills and is 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:

I = Annualized effective Demand Deposit rate in decimals.

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 does not contain a leap year day) or 366 (if the year following issue date 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 will invest any unredeemed Demand Deposit securities in special ninety-day certificates of indebtedness. Funds invested in the ninety-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. When regular Treasury borrowing operations resume, the ninety-day certificates of indebtedness, at the owner's option, are:

(1) Payable at maturity;

(2) Redeemable before maturity, provided funds are available for redemption; or

(3) Reinvested in Demand Deposit securities.

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

(a) *When is my subscription due?* The subscriber must fix the issue date of each security 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 seven 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 sixty days after the date BPD receives the subscription. If the subscription is for $10 million or less, BPD must receive the subscription at least five days before the issue date. If the subscription is for more than $10 million, BPD must receive the subscription at least seven 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) The title of an official authorized to purchase SLGS securities;

(5) A description of the tax-exempt bond issue; and

(6) The certification 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 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 subscription must:

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

(2) Include the certifications required by § 344.2(e)(2)(i) (relating to yield); and

(3) Include the information required under paragraph (b) of this section, if not already provided.

§ 344.9 How do I redeem a Demand Deposit security?

(a) *When must I notify BPD to redeem a security?* A Demand Deposit security can be redeemed at the owner's option, if BPD receives a request for redemption not less than:

(1) One business day before the requested redemption date for redemptions of $10 million or less; and

(2) Three business days before the requested redemption date for redemptions of more than $10 million.

(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. BPD must receive the request by 3 p.m., Eastern time on the required day. You cannot cancel the request.

Subpart D—Special Zero Interest Securities

§ 344.10 What are Special Zero Interest securities?

Special zero interest securities were issued as certificates of indebtedness and notes. The provisions of subpart B of this part (Time Deposit securities) apply except as specified in Subpart D of this part. Special Zero Interest securities were discontinued on October 28, 1996. The only zero interest securities available after October 28, 1996, are zero interest Time Deposit securities that are subject to subpart B of this part.

§ 344.11 How do I redeem a Special Zero Interest Security before maturity?

Follow the provisions of § 344.6(a) through (g), except that no market charge or penalty will apply when you redeem a special zero interest security before maturity.

Donald V. Hammond,

Fiscal Assistant Secretary.

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