REGULATIONS GOVERNING UNITED STATES TREASURY CERTIFICATES OF INDEBTEDNESS, TREASURY NOTES, AND TREASURY BONDS -- STATE AND LOCAL GOVERNMENT SERIES

TABLE OF CONTENTS

(Titles in italics are not in original text, but are added for clarity)

DEPARTMENT OF THE TREASURY
Fiscal Service
31 CFR Part 344
(Department of the Treasury Circular, Public Debt Series No. 3-72)
REGULATIONS GOVERNING UNITED STATES TREASURY CERTIFICATES OF INDEBTEDNESS, TREASURY NOTES, AND TREASURY BONDS -- STATE AND LOCAL GOVERNMENT SERIES

(NOTE: Italicized titles not in original text)

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

ACTION: Final rule.

SUMMARY: The Department of the Treasury hereby publishes a final rule governing United States Treasury Certificates of Indebtedness, Notes, and Bonds of the State and Local Government Series (SLGS). These securities are available for purchase by issuers of state and local government bonds described in Section 103 of the Internal Revenue Code for proceeds (or amounts treated as proceeds) which are subject to yield restrictions or arbitrage rebate requirements of the Income Tax regulations under sections 103, 148, 149 and 150 of the Internal Revenue Code (tax regulations). This final rule makes the SLGS securities program more flexible in a manner consistent with tax policy objectives.

EFFECTIVE DATE: The regulations are effective for securities where the subscription is received on or after October 28, 1996, except that the revised notice period for early redemptions applies to all SLGS issues. Subscribers for SLGS securities can continue to use the current forms, lining out any obsolete parts, until new forms are distributed.

FOR FURTHER INFORMATION CONTACT: Fred Pyatt, Director, or Howard Stevens, Supervisory Program Analyst, Division of Special Investments, at 304-480-7752 or Ed Gronseth, Deputy Chief Counsel, or Jim Kramer-Wilt, Attorney/Adviser, Office of the Chief Counsel, at 304-480-5190.

SUPPLEMENTARY INFORMATION:

I. BACKGROUND.

The Department of the Treasury, Bureau of the Public Debt, is attempting to make the SLGS securities program more attractive and flexible for State and local government issuers of debt obligations that are subject to the arbitrage and rebate rules of the Internal Revenue Code. It is the Department's intent to do so in a manner consistent with tax policy objectives and in a manner that is cost effective.

In recent years, market participants have advised the Department that aspects of the existing SLGS securities regulations impose burdens that are not needed or cost effective. On April 30, 1996, the Department published an Advanced Notice of Proposed Rulemaking, noting ten general changes the Department was considering in order to make the SLGS securities program more flexible.

There were eight letters received commenting on the Advanced Notice of Proposed Rulemaking (ANPR). In general, the comments were in favor of the ten items contained in the ANPR. Several comments suggested specific parameters for some of the ten items while others suggested the Treasury Department consider changes not contained in the ANPR.

On July 26, 1996, the Department published a proposed rule, outlining specific changes to the SLGS securities program. There were five letters received which provided seven different comments on the proposed rule.

(a) *Comment Regarding 40-Year Maturity*. One commenter suggested that the Department consider amending 31 CFR section 344.2(a)(3) to permit issuing bonds with a maturity period exceeding 30 years. The commenter acknowledged that the calculation of SLGS securities rates past the 30-year yield curve would be difficult and indicated a willingness to accept a 30-year rate for maturities in excess of 30 years.

The Department amended the final rule to permit the issuance of bonds with maturities of up to 40 years. The maximum applicable rate for securities with a maturity in excess of 30 years is the 30-year rate.

(b) *Comments Regarding Elimination of "Mailbox Rule"*. There were four comments received concerning the apparent elimination of the "mailbox rule". This rule had provided that the applicable rate table for any subscription was the one in effect on the date the initial subscription was faxed, post-marked or carrier date-stamped, rather than on the date received under the proposed rule. The commenters argued that if a subscriber could not lock in the SLGS rate on the pricing date, many issuers will choose open market securities in order to lock in the required yield.

The commenters argued for issuers to have the option to use the mailbox rule, rather than the "actual receipt" rule. The comments suggested that in order to accommodate the Department's need for five or seven days notice, the regulations should permit the issuer to lock in the maximum interest rate by mailing the initial subscription, so long as a copy of the initial subscription form (clearly marked to indicate it is a duplicate of the mailed subscription), together with proof of mailing is separately sent by means reasonably designed to arrive at the Bureau of the Public Debt within the required five / seven days notice period.

The Department considered this suggestion and amended the final rule to provide that an issuer can either lock in a SLGS rate with a timely fax to the Division of Special Investments, or, if a subscription is mailed, it must be received by Public Debt on or before the required five / seven day notice period in order to lock in the SLGS rate for the day of mailing.

The Department considers it the responsibility of the subscriber to confirm the receipt of any fax sent to Public Debt. The Division of Special Investments has multiple fax machines that register the fax number of the subscriber, even if a paper jam occurs. Therefore, subscribers sending faxed subscriptions after the close of business at Public Debt on the last day of the notice period should not have a problem getting their fax timely received or getting confirmation the next morning. If a failed attempt to subscribe is confirmed the following morning, the subscriber can lock in the SLGS rates for the previous day by immediately faxing another subscription.

(c) *Comments Regarding SLGS Revocation. There* were four comments stating that the addition in the proposed rule of two new standards under which the Secretary can revoke a subscription, 31 CFR section 344.1(f)(3)(ii) and 31 CFR section 344.1(f)(3)(iii), is too ambiguous and, unlike non-callable open market securities, permits the revocation of a SLGS subscription after issuance. One of the commenters suggested that the previous language be reinstated and that the regulations require a certification by the subscriber that the amounts invested were gross proceeds of a tax-exempt bond. Another commenter suggested that the authority of the Secretary to revoke issuance of SLGS securities be limited to circumstances where the issuance of SLGS securities is inconsistent with the SLGS regulations and the Secretary determines that revocation is in the public interest.

The Department considered the issues raised by these comments and has deleted the language of the proposed regulations and has retained the authority of the Secretary to revoke subscriptions for improper certifications consistent with the previous regulations. Use of SLGS securities in a manner which violates the tax regulations will be dealt with under the tax laws.

(d) *Comment Regarding 60-Day Order Period*. Another comment suggested that the Department consider issuing zero interest SLGS securities where the subscriptions for such securities are received more than 60 days before the issue date (the current requirement). The suggestion was that the Department extend this period to one year.

The Department decided that maintaining subscription requests for longer than 60 days is an administrative burden and is not including this suggestion in the final rule.

(e) *Comment Regarding Internet Rate Access.* One comment suggested that Public Debt put the daily SLGS interest rate table on the World Wide Web.

Public Debt is currently posting these rates on the Internet at
ftp://ftp.publicdebt.treas.gov/secrate.txt

(f) *Comment Regarding Limitation on Source of Investment*. Another comment advised that the terms used in the summary of the proposed regulations and the text of the proposed regulations to describe amounts which can be invested in SLGS securities are inconsistent and create ambiguity.

The Department considered the suggestion and amended section 344.0(a) to specify that SLGS can be purchased with any amounts that constitute gross proceeds of an issue or any other amounts which assist an issuer of tax-exempt bonds in complying with any applicable provisions of the Internal Revenue Code relating to such tax exemption.

(g) *Comment Regarding Investment for Conduit Borrowers. The* final comment expressed the concern that the requirement for a subscriber to provide the employer identification number only for the issuer would unfairly penalize issuers in cases where the six-month penalty for failure to settle a SLGS securities subscription is due to the actions of a conduit borrower.

The concern of the commenter was that most states and cities have loan programs for various purposes such as housing, health care and education which service multiple conduit obligors. However, if any one conduit obligor's failure to comply could subject all conduit obligors under such a program to a six-month freeze-out, then no conduit obligor could structure its plan of investment based on the assumption that SLGS securities would be available to it as needed.

The Department decided to amend the language of section 344.1(h) to provide that the six-month penalty applies to the government body unless the government body provides the Tax Identification Number of the conduit borrower to the Department when non-settlement occurs.

Further Clarifications. The Department made three additional changes that clarify or improve the SLGS securities program.

(i) In section 344.5(a)(3)(ii), it is now clear that either a premium or discount can occur when calculating early redemption value, depending on whether the Treasury borrowing rate is lower or higher than the stated interest rate of the early-redeemed SLGS security.

The Department added language to this section and to Appendix B to make this clarification.

(ii) The maximum amount by which a subscription can be amended is given greater flexibility by making the standard of section 344.3(b)(3)(ii) "the greater of $10 million or ten percent of the initial subscription amount."

(iii) Section 344.5(a)(3)(ii) is revised to read that the term "current Treasury borrowing rate" means the applicable rate shown in the table of maximum interest rates payable on United States Securities -- State and Local Government Series, for the day the request for early redemption is received by Public Debt, plus 5 basis points. Sections 344.5(a)(4)(ii) and 344.5(a)(5)(iii) are revised to refer to the definition of the term "current Treasury borrowing rate" as set forth in section 344.5(a)(3)(ii).

II. SECTION BY SECTION SUMMARY

Subpart A -- General Information

Provisions included in the general information section apply to time deposit and demand deposit State and Local Government Series securities. Changes from the 1995 regulations are as follows:

Subpart A -- General Information

(1) Section 344.0(a) -- This section is amended to read that SLGS can be purchased with any amounts that constitute gross proceeds of an issue or any other amounts which assist an issuer of tax-exempt bonds in complying with applicable provisions of the Internal Revenue Code relating to such tax exemption.

(2) Section 344.0(b) -- This section is changed to redefine the term "government body" to make it clear SLGS securities are issued only to state and local governments and not to conduit borrowers.

(3) Section 344.0(c) -- A new section is added to indicate that time deposit SLGS securities are issued in a minimum amount of $1,000, or in any increments of not less than $1.00. Demand Deposit securities are still issued in any increment over the $1,000 minimum. The minimum maturity period for zero percent certificates of indebtedness is reduced from thirty days to fifteen days.

(4) Section 344.1(a) -- This section is changed to note that copies of the circular can be obtained from the Division of Special Investments.

(5) Section 344.1(h) -- A new section is added on noncompliance which applies to all subparts and the previous noncompliance section in each subpart is deleted. This section also clarifies that late payment fees and administrative fees are due on demand. This section further clarifies that the term "government body" is defined as the state or local government entity rather than the conduit borrower for the placement of the penalty for non-compliance, unless the state or local government entity provides the Tax Identification Number of the conduit borrower that caused the non-settlement to occur.

(6) Section 344.1(i) -- Another general section is added, titled General Redemption Provisions, stating a security will not be called for redemption by the Secretary of the Treasury prior to maturity. If a security matures on a non-business day, it will be redeemed on the next business day. This section applies to all subparts and duplications of this section that exist in the previous regulations are deleted.

(7) Section 344.1(j) -- A new section is added to clarify that any reference to days refers to calendar days, unless otherwise noted.

Subpart B -- Time Deposit Securities

(1) Section 344.2(a)(1) -- The reference to the $1,000 minimum is deleted.

(2) Section 344.2(a)(2) -- In light of Section 344.0(c), the reference to the $1,000 minimum amount and the $100 increment above this amount is deleted.

(3) Section 344.2(a)(3) -- In light of Section 344.0(c), the reference to the $1,000 minimum amount and the increment above this amount is deleted. This section is also amended to provide for the issuance of bonds with maturities up to 40 years, with the maximum applicable rate for securities with maturities in excess of 30 years is the 30-year rate.

(4) Section 344.2(b) -- The last sentence of this section states the rates specified in the tables are five basis points below the then current estimated Treasury borrowing rate for a security of comparable maturity.

(5) Section 344.2(c)(2) -- This section is amended to provide for alternative methods of payment of redemptions prior to maturity, such as by Fedwire.

(6) Section 344.3(b)(1) -- This section is amended to indicate that subscriptions must be received by Public Debt at least five days prior to issue date for subscriptions of $10 million or less and seven days for subscriptions of more than $10 million. Subscriptions of $10 million or less can be canceled without penalty up to five days before the date of issuance. Subscriptions

of more than $10 million can be canceled without penalty up to seven days before the date of issuance.

This section also notes that a subscription sent in letter form will not be accepted unless it provides the Tax Identification Number of the government body.

In the example of an initial subscription in letter form, the words "or other entity" have been deleted to emphasize that the proper Tax Identification Number to insert is that of the state or local government owner, not that of a trustee bank or a conduit borrower.

This section further provides that a subscriber can lock in the SLGS rates for the day it either sends a fax to Public Debt on or before the five/seven day notice period or by mailing a subscription, provided the mailed subscription is received by Public Debt on or before the five/seven day notice period. It is the responsibility of the sender of the fax to confirm its receipt.

(7) Section 344.3(b)(4) -- This section is revised to read that no initial subscription is required when a final subscription is received at least five days before the issue date for subscriptions of $10 million or less or at least seven days before the issue date for subscriptions of over $10 million.

(8) Section 344.3(c) -- This section is amended to eliminate all certifications other than the former section 344.3(c)(3), which has been revised. The "all or nothing" rule of the certification in the former section 344.3(c)(1) is eliminated to facilitate the use of the time deposit securities for investment of proceeds that are subject to arbitrage rebate. This change alleviates some of the need to calculate rebate if funds can be invested at the bond yield for a longer term. In general, to the extent that the certifications were a result of concerns about abuse of the tax regulations and the SLGS program, the Department determined that the yield restriction and rebate rules are more appropriately enforced under the tax regulations. The certification formerly in section 344.3(c)(3) is revised to apply only to SLGS securities subscribed for prior to December 27, 1976. The certification formerly in section 344.3(c)(4) is eliminated because of certain prior changes to the SLGS securities regulations (such as the change to daily SLGS securities rates), and because of changes to the early redemption penalties under section 344.5, contained in these final regulations. Additionally, the word "beneficial owner" is changed to "government body" to make it clear that the proper Tax Identification Number is that of the government entity.

(9) Section 344.3(b)(3)(ii) -- This section is amended to read that the aggregate subscription amount can not be changed by more than the greater of $10 million or ten percent of the initial subscription amount.

(10) Section 344.4(b) -- This section is eliminated.

(11) Section 344.3(b)(4)(c) -- This section is amended to read that the final subscription must be for a total principal amount that is no more than the greater of either $10 million or ten percent above or below the aggregate principal amount specified in the initial subscription.

(12) Section 344.5(a) -- This section is eliminated.

(13) Section 344.5(b)(1) -- This section is renumbered 344.5(a)(1) and is amended to provide that zero interest certificates can be redeemed before maturity at the owner's option no earlier than fifteen days before maturity for certificates of fifteen to twenty- nine days duration and no earlier than thirty days after the issue date in the case of all other certificates, notes or bonds.

(14) Section 344.5(a)(2) -- This section is a new section number and the body of the section consists of the former section 344.5(b)(2). It is amended to change the word "subscriber" to, "government body" in the 3rd sentence of this section. This section is further amended to read that notice of redemption must be received by Public Debt no less than ten days before the requested redemption date, rather than the current fifteen-day requirement.

(15) Section 344.5(a)(3) -- This is a new section which provides for the calculation of redemption proceeds for SLGS securities subscribed for on or after the effective date of this final rule. This section changes the formula for determining the early redemption value of SLGS securities to one where 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 results in a premium or a discount in cases where the Treasury borrowing rate is lower or higher than the stated interest rate of the SLGS securities. This section further refers to Appendix B at the end of Part 344 for the calculation of the formula.

This section provides no market charge for zero interest time deposit securities. The redemption proceeds for a zero interest security are a return of the principal invested.

(16) Sections 344.5(a)(3)(ii), 344.5(a)(4)(ii) and 344.5(a)(5)(iii) are amended to redefine the term "current Treasury borrowing rate". The term is defined in section 344.5(a)(3)(ii) and the other two sections refer to the definition in this section.

(17) Sections 344.5(b)(3), (b)(4) and (b)(5) -- These sections are renumbered 344.5(a)(4), (a)(5) and (a)(6) respectively and remain unchanged.

Subpart C -- Demand Deposit Securities

(1) Section 344.6(a) -- This section is revised to delete the reference to a $1,000 minimum investment. This is now incorporated into the new general section, 344.0(c).

(2) Section 344.6(b)(3) -- Simultaneously with the publication of these final regulations, the Department is publishing a Federal Register notice which provides the marginal tax rate and the Treasury Administrative Cost (TAC) used in the demand deposit program.

(3) Section 344.7(a) -- This section is amended by stating that subscriptions for $10 million or less must be received by Public Debt at least five days prior to the date of issue and requires that subscriptions of over $10 million be received by Public Debt at least seven days prior to the date of issue.

(4) Section 344.7(c)(1) -- This section is removed since under the final rule, the $35 million cap on issues of demand deposit securities is eliminated.

(5) Section 344.7(c)(2) through - (c)(6) -- These sections are eliminated because the certifications can be administered more effectively under the tax regulations of Section 148 of the Internal Revenue Code. The tax regulations will be amended to reflect the transfer of these certifications (to the extent not already covered by the tax regulations).

(6) Section 344.8(b) -- This section is eliminated.

(7) Section 344.9(a) -- This section is amended to state that notice of redemptions for subscriptions of more than $10 million must be received at least three business days prior to the scheduled date of redemption. Redemption notice for subscriptions of $10 million or less remains unchanged at one business day. This section also provides for payments by Fedwire.

(8) Section 344.9(c) -- This section is eliminated because the rules regarding expenditure of proceeds are covered by the tax regulations.

Subpart D -- Special Zero Interest Securities

(1) Section 344.10 -- This section is amended to state that the Department has discontinued the issuance of this type of security as of [insert date of publication of final rule]. The amendment to the time deposit security subpart, which permits investment for rebate and yield restriction purposes, eliminates the need for a separate Special Zero Interest Program. Under the revisions, the following sections of this Subpart apply only to special zero interest securities subscribed for before [insert date of publication of final rule]. Subpart B, governing time deposit securities, is changed in a manner that permits the redemption of time deposit zero interest securities without penalty. Investors that hold special zero interest securities subscribed for before [insert date of publication of final rule] can still redeem these securities without penalty.

(2) Section 344.11 -- This section is eliminated.

(3) Section 344.12 -- This section is eliminated.

(4) Section 344.13 -- This section is renumbered section 344.11 and remains in effect for the special zero interest accounts now outstanding. The word "subscriber" is changed to "government body" to clarify that the proper Tax Identification Number is that of the government entity. Redemption notices must be received by Public Debt within the proscribed limits.

Appendix A to Part 344 -- There is a clarifying statement that these formulas apply to SLGS securities subscribed for before the effective date of this final rule.

Appendix B to Part 344 -- This appendix contains a new formula for determining the redemption value for all early-redeemed time deposit SLGS securities. This formula reflects the change that the remaining interest and principal payments are discounted by the Treasury borrowing rate for the remaining term to maturity of the security redeemed. This results in a premium or a discount, depending on whether the Treasury borrowing rate is lower or higher than the stated interest rate of the SLGS security.

PROCEDURAL REQUIREMENTS: This final rule is not a significant regulatory action as defined in Executive Order 12866. Therefore, an assessment of anticipated benefits, costs and regulatory alternatives is not required.

This final rule relates to matters of public contract and procedures for United States securities. The notice and public procedures requirements of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2). Since no notice of proposed Rulemaking was required, the provisions of the Regulatory Flexibility Act (5 U.S.C. 601 et seq.) do not apply.

The final rule does not alter the collection of information previously reviewed and approved by the Office of Management and Budget, in accordance with the requirements of the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1535-0091. The principal purpose of the final rule is to make the SLGS securities program more attractive and flexible for investors. The revision does not impose a new collection of information requirement.

List of Subjects in 31 CFR Part 344

Bonds, Government securities, Securities.
Dated: * * * 10/21/96

Gerald Murphy,
Fiscal Assistant Secretary

For the reasons set forth in the preamble, Part 344 of title 31 of the Code of Federal Regulations is revised to read as follows:

PART 344 -- REGULATIONS GOVERNING UNITED STATES TREASURY CERTIFICATES OF INDEBTEDNESS, TREASURY NOTES, AND TREASURY BONDS -- STATE AND LOCAL GOVERNMENT SERIES

Subpart A -- General Information

Subpart B -- Time Deposit Securities

Subpart C -- Demand Deposit Securities

Subpart D -- Special Zero Interest Securities

AUTHORITY: 26 U.S.C. 141 note; 31 U.S.C. 3102
SOURCE:

Subpart A -- General Information

Section 344.0 Offering of securities

(a) *Securities offered.* In order to provide issuers of tax exempt securities with investments from any amounts that constitute gross proceeds of an issue or any other amounts which assist an issuer of tax-exempt bonds in complying with applicable provisions of the Internal Revenue Code relating to such tax exemption, the Secretary of the Treasury offers for sale the following State and Local Government Series securities:

(1) Time deposit securities:

(i) United States Treasury Certificates of Indebtedness,

(ii) United States Treasury Notes, and

(iii) United States Treasury Bonds.

(2) Demand deposit securities -- United States Treasury Certificates of Indebtedness.

(b) *Definitions*. As appropriate, the definitions of terms used in Part 344 are those found in the relevant portions of the Internal Revenue Code and the tax regulations. The term "government body" refers to issuers of state or local government bonds described in section 103 of the Internal Revenue Code.

(c) *Minimum amount; denominations*. The securities in paragraph (a) of this section are issued in a minimum amount of $1,000, or in any larger amount, in increments of not less than $1.00 for time deposit securities and in any increments over the $1,000 minimum for demand deposit securities.

(d) *Termination*. This offering continues until terminated by the Secretary of the Treasury.

Section 344.1 General provisions.

(a) Regulations. United States Treasury securities -- State and Local Government Series shall be subject to the general regulations with respect to United States securities, which are set forth in the Department of the Treasury Circular No. 300 (31 CFR Part 306), to the extent applicable. Copies of the circular can be obtained from the Bureau of the Public Debt, Division of Special Investments -- Room 309, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102-0396.

(b) Issuance. The securities are issued in book-entry form on the books of the Department of the Treasury, Bureau of the Public Debt, Parkersburg, WV. Transfer of securities by sale, exchange, assignment, pledge, or otherwise is not permitted.

(c) Transfers. Securities held in an account of any one type, *i.e.*, time deposit, demand deposit, or special zero interest, can not be transferred within that account or to an account of any other type.

(d) Fiscal agents. Selected federal reserve banks and branches, as fiscal agents of the United States, can be designated to perform such services requested of them by the Secretary of the Treasury in connection with the purchase of, transactions involving, and redemption of, the securities.

(e) Authority of subscriber. Where a commercial bank submits an initial or final subscription on behalf of a government body, it must certify it is acting under the latter's specific authorization. Ordinarily, evidence of such authority is not required. Subscriptions submitted by an agent, other than a commercial bank, must be accompanied by evidence of the agent's authority to act. Such evidence must describe the nature and scope of the agent's authorization, must specify the legal authority under which the agent was designated, and must relate by its terms to the investment action undertaken. Subscriptions unsupported by such evidence are not acceptable.

(f) Reservations. Transaction requests, including requests for subscription and redemption, are not acceptable if unsigned, inappropriately completed, or not timely submitted. Any of these actions shall be final. The authority of the Secretary to waive regulations under 31 CFR 306.126 applies to Part 344. The Secretary of the Treasury reserves the right:

(1) To reject any application for the purchase of securities under this offering;

(2) To refuse to issue any such securities in any case or any class(es) of cases; and

(3) To revoke the issuance of any security, and to declare the subscriber ineligible thereafter to subscribe for securities under this offering, if any security is issued on the basis of an improper certification or other misrepresentation by the subscriber (other than as the result of an inadvertent error), if the Secretary deems such action in the public interest.

(g) Debt limit contingency. The Department of the Treasury reserves the right to change or suspend the terms and conditions of this offering, including provisions relating to subscriptions for, and issuance of, securities, interest payments, redemptions, and rollovers, as well as notices relating hereto, 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. Announcement of such changes shall be provided by such means as the Secretary deems appropriate.

(h) Noncompliance. The penalty imposed on any government body which fails to make settlement on a subscription once submitted and not canceled timely shall be to render the government body ineligible thereafter to subscribe for securities under any offering in Part 344 for a period of six months, beginning on the date the subscription is withdrawn or the proposed issue date, whichever occurs first.

The penalty is imposed on the government body unless the government body provides the Tax Identification Number of a conduit borrower that is the actual party failing to make settlement of a subscription. If this number is provided for a conduit borrower, the conduit borrower shall be the entity on which the six-month penalty is imposed.

The Division of Special Investments can determine to waive the six-month penalty, pursuant to the provisions governing the waiver of regulations set forth under 31 CFR 306.126. Where settlement occurs after the proposed issue date and the Division of Special Investments determines, pursuant to 31 CPR 306.126, that settlement is acceptable on an exception basis, the six-month penalty will be waived and the government body shall be subject to a late payment assessment. The late payment assessment will equal the amount of interest that will have accrued on the securities from the proposed issue date to the date of settlement, as well as an administrative fee of $100 per subscription. Assessments of late payment fees and administrative fees under Part 344 are due on demand.

(i) General redemption provisions. A security can not be called for redemption by the Secretary of the Treasury prior to maturity. Upon the maturity of a security, the Department will make payment of the principal amount and interest due to the owner thereof. A security scheduled for maturity on a non-business day will be redeemed on the next business day.

(j) Business or calendar days. Unless otherwise noted, any reference herein to days refers to calendar days.

Subpart B -- Time Deposit Securities

Section 344.2 Description of securities.

(a) Terms.

(1) Certificates. The certificates are issued with maturity periods fixed by the government body, from thirty days up to and including one year, or for any intervening period; provided, for certificates that bear no interest, the maturity period can be fixed by the government body from fifteen days up to and including one year or for any intervening period.

(2) Notes. The notes are issued with maturity periods fixed by the government body, from one year and one day up to and including ten years, or for any intervening period.

(3) Bonds. The bonds are issued with maturity periods fixed by the government body, from ten years and one day up to and including forty years, or for any intervening period; provided that for any subscription for a bond exceeding 30 years, the maximum available rate shall be the rate on a 30-year bond.

(b) Interest rate. Each security shall bear such rate of interest the government body designates, but the rate shall not exceed the maximum interest rate. The applicable maximum interest rates for each day shall equal rates shown in a SLGS securities rate table, which is released by the Department to the public by 10:00 a.m., Eastern time, each business day. If the Department finds that due to circumstances beyond its control the rates are not available to the public by 10:00 a.m., Eastern time, on any given business day, the applicable interest for the last preceding business day shall apply. The applicable rate table for any subscription is the one in effect on the date the initial subscription is faxed, postmarked or carrier date stamped. The rates specified in the tables are five basis points below the then current estimated Treasury borrowing rate for a Treasury security of comparable maturity.

These rates can be obtained: (1) in the Commerce Department's Economic Bulletin Board; (2) by contacting the Division of Special Investment's automated fax at (304) 480-7548; (3) by calling the Division of Special Investments at (304) 480-7752; or (4) on the Internet at ftp://ftp.publicdebt.treas.gov/secrate.txt.

(c) Payment.

(1) Interest computation and payment dates. Interest on a certificate is computed on an annual basis and is paid at maturity with the principal. Interest on a note or bond is paid semiannually. The government body specifies the first interest payment date, which must occur any time between thirty days and one year of the date of issue, and the final interest payment

date must coincide with the maturity date of the security. Interest for other than a full semiannual interest period is computed on the basis of a 365-day or 366-day year (for certificates) and on the basis of the exact number of days in the half-year (for notes and bonds). See the appendix to subpart E of Part 306 of this chapter for rules regarding computation of interest.

(2) Method of payment. Payment can be made by the Automated Clearing House method (ACH) for the owner's account at a financial institution designated by the owner. Redemptions prior to maturity are paid by Fedwire. To the extent applicable, provisions of section 357.26 on "Payments", set forth in 31 CFR Part 357 and provisions of 31 CFR Part 370, shall govern ACH payments made under this offering. The Department of the Treasury can employ alternate payment procedures, instead of ACH, in any case, or class of cases where operational considerations necessitate such action.

Section 344.3 Subscription for purchase.

(a) Subscription requirements. Subscriptions for purchase of securities under this offering must be submitted to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102-0396. Initial and final subscriptions can be submitted by fax at (304) 480-6818, by mail, or by other carrier. All subscriptions submitted by mail, whether initial or final, should be sent by certified or registered mail.

(b) Initial subscriptions.

(1) *Time and form*. An initial subscription, either on a designated Treasury form or in letter form, stating the principal amount to be invested and the issue date, must be received by Public Debt at least five days before the issue date for subscriptions of $10 million or less, and at least seven days before the issue date for subscriptions of over $10 million, but in no event will subscriptions be received more than 60 days prior to issue date. Subscriptions can be sent by fax on (304) 480-6818, carrier service, U.S. Postal Service or other means. If the subscription is faxed, the original document must be received by Public Debt no later than the issue date. Initial subscriptions of $10 million or less can be canceled without penalty by the subscriber prior to the fifth day before issue date. If the fifth day before issue date is a non-business day, the cancellation must occur on the preceding business day. Subscriptions of more than $10 million can be canceled without penalty by the subscriber prior to the seventh day before issue date. For example, if securities totaling $10 million or less are to be issued on March 16, the initial subscription must be received by Public Debt no later than March 11. If securities totaling more than $10 million are to be issued on March 16, the initial subscription must be received by Public Debt no later than March 9.

A subscriber can lock in the SLGS rate for the day it submits its subscription by sending a fax to the Division of Special Investments on or before the five/seven day notice period. A subscriber can also lock in the SLGS rate on the date of the postmark of a mailed subscription, provided the subscription is received on or before the five/seven day notice period. It is the responsibility of the sender of a faxed subscription to confirm its receipt. If the initial subscription is in letter form, it must contain the Tax Identification Number of the government body or it is unacceptable. It should read substantially as follows:

To: Bureau of the Public Debt

Pursuant to the provisions of Department of the Treasury Circular, Public Debt Series No. 3-72, current revision, the undersigned hereby subscribes for United States Treasury Time Deposit Securities -- State and Local Government Series, issued as entries on the books of the Bureau of the Public Debt, Department of the Treasury, in the total amount and with the issue date shown below, which date is at least five / seven days after the date of this subscription:

Principal Amount
$
Issue Date

The undersigned agrees the final subscription and payment will be submitted on or before the issue date.

(Tax I.D. Number of state or local government body eligible to purchase State and Local Government Series securities)

(Name of state or local government body eligible to purchase State and Local Government Series securities)

(Date)
by
(Signature and Title)

(2) *Authority; failure to complete*. The provisions set out in paragraph (e) of section 344.1, dealing with the authority of the subscriber to act on behalf of a government body, and in section 344.1(h), relating to the failure to complete a subscription, apply to initial and to final subscriptions.

(3) *Amendment*. An initial subscription can be amended on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. Notification can be faxed to the Bureau of the Public Debt at (304) 480-6818 provided the request is clearly identified as an amendment and is immediately followed by the submission, by mail or other carrier, of written notification. Amendments to initial subscriptions are acceptable with the following exceptions:

(i) The issue date can not be changed to require issuance earlier than the issue date originally specified. The issue date can be changed up to 7 days after the original issue date. If such a change is made, notification should be provided to the Bureau of the Public Debt as soon as possible, but no later than 3:00 p.m., Eastern time, one business day before the originally specified issue date;

(ii) The aggregate amount can not be changed by more than the greater of $10 million or ten percent above or below the aggregate principal amount specified in the initial subscription;

(iii) An interest rate can not be changed to a rate that exceeds the maximum interest rate in the table that was in effect for a security of comparable maturity on the date the initial subscription was submitted under the provisions of section 344.3(b)(1); and

(iv) Where an amendment is not submitted timely, the Division of Special Investments can determine, pursuant to the provisions governing waiver of regulations set forth under 31 CFR 306.126, that such an amendment is acceptable on an exception basis. Where an amendment is determined acceptable on an exception basis, the amended information shall be used as the basis for issuing the securities, and an administrative fee of $100 per subscription will be assessed. This administrative fee is due on demand as provided for in section 344.1(h). The Secretary reserves the right to reject amendments which are not submitted timely.

(4) *Avoidance of initial subscription*. No initial subscription is required where a final subscription is received at least five days before the issue date for subscriptions of $10 million or less and at least seven days before the issue date for subscriptions of over $10 million. Such final subscription is treated as the initial subscription for purposes of determining the applicable interest rate table (see section 344.2(b)), and can be amended on or before the issue date, subject to the exceptions in paragraph (b)(3) of this section.

(c) Final subscriptions. A final subscription must be received by the Bureau of the Public Debt on or before the issue date, but no later than 3:00 p.m., Eastern time, on the issue date. The final subscription can be faxed to the Bureau of the Public Debt at (304) 480-6818, provided the fax is properly identified as a final subscription and is immediately followed by the submission of the original subscription form by mail or other carrier. The final subscription must be for a total principal amount that is no more than the greater of either $10 million or ten percent above or below the aggregate principal amount specified in the initial subscription. The final subscription, dated and signed by an official authorized to make the purchase and showing the Taxpayer Identification Number of the government body, must be accompanied by a copy of the initial subscription, where applicable. The various maturities, interest rates, and interest payment dates (in the case of notes and bonds), must be specified in the final subscription, as well as the title(s) of the designated official(s) authorized to request early redemption. Final subscriptions submitted for certificates, notes and bonds must separately itemize securities of each maturity and each interest rate. The final subscription must contain a statement by the subscriber that none of the proceeds submitted in payment is derived (directly or indirectly) from the redemption before maturity of other securities of the State and Local Government Series subscribed for on or before December 27, 1976.

Section 344.4 Issue date And payment.

(a) General. The subscriber shall fix the issue date of each security in the initial subscription. The issue date must be a business day and can not exceed by more than sixty days the date the initial subscription is received by Public Debt. Full payment for each subscription must be submitted by the Fedwire funds transfer system with credit directed to the Treasury's General Account. Full payment should be submitted by 3:00 p.m., Eastern time, to ensure that settlement of the securities occurs on the date of issue.

(b) [Reserved]

Section 344.5 Redemption.

(a) Redemption before maturity.

(1) In general. A security can be redeemed at the owner's option no earlier than twenty-five days after the issue date in the case of a certificate of thirty days or more, no earlier than fifteen days before the scheduled maturity for zero interest certificates of fifteen to twenty-nine days maturity, and no earlier than thirty days after the issue date in the case of a note or bond. Partial redemptions can be requested in any amount; however, an account balance of less than $1,000 will be redeemed in total.

(2) Notice. Notice of redemption prior to maturity must be submitted, either on a designated Treasury form or by letter, by the official(s) authorized to redeem the securities, as shown on the final subscription form, to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV, 26102-0396. The notice must be received by Public Debt no less than ten days before the requested redemption date, but no more than sixty days before the requested redemption date. The notice must show the account number, the maturities of the securities to be redeemed, and the Tax Identification Number of the government body. A notice of redemption prior to maturity can not be canceled.

(3) Redemption proceeds -- 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:

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

(ii) 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 results in a premium or discount to the government body, depending on whether the current Treasury borrowing rate is lower or higher than the stated interest rate of the early-redeemed SLGS security. This does not apply to SLGS securities subscribed for before October 28, 1996. The term "current Treasury borrowing rate" means the applicable rate shown in the table of maximum interest rates payable on United States Treasury securities -- State and Local Government Series -- for the day the request for early redemption is received by Public Debt, plus five basis points. 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 section, including examples of the determination of premiums and discounts are set forth in Appendix B of this Part.

(4) Redemption proceeds -- 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:

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

(ii) Market charge. An amount shall be deducted from the redemption proceeds in all cases where the current borrowing rate of the Department of the Treasury for the remaining period to original maturity of the security prematurely redeemed 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. For certificates, the increased borrowing cost for the remaining period to original maturity is determined by multiplying the annual cost by the number of days remaining until original maturity divided by the number of days in the calendar year. Present value shall be determined by using the current Treasury borrowing rate as the discount factor. The term "current Treasury borrowing rate" is determined in section 344.5(a)(3)(ii). Where redemption is requested on a date less than thirty days before the original maturity date, such applicable rate is the rate shown for a security with a maturity of thirty days. The market charge for bonds, notes, and certificates of indebtedness can be computed by use of the formulas in Appendix A to this Part.

(5) Redemption proceeds -- 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:

(i) Interest. Interest for the entire period the security was outstanding shall be recalculated on the basis of the lesser of the original interest rate at which the security was issued, or the interest rate that would have been set at the time of the initial subscription had the term for the security been for the shorter period. If a note or 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.

(ii) Overpayment of interest. If there have been overpayments of interest, as determined under paragraph (a)(5)(i) of this section, there shall be deducted from the redemption proceeds the aggregate amount of such overpayments, plus interest, compounded semiannually thereon, from the date of each overpayment to the date of redemption. The interest rate used in calculating the interest on the overpayment shall 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.

(iii) Market charge. An amount shall be deducted from the redemption proceeds in all cases where the current borrowing rate of the Department of the Treasury for the remaining period to original maturity of the security prematurely redeemed exceeds the rate of interest originally fixed for such security. The amount shall be calculated using the formula in paragraph (a)(3)(ii) of this section.

(6) Redemption proceeds -- Subscriptions on or before December 27, 1976. For securities subscribed for on or before December 27, 1976, the amount of the redemption proceeds is calculated as follows.

(i) The interest for the entire period the security was outstanding shall be re-calculated on the basis of the lesser of the original interest rate at which the security was issued, or an adjusted interest rate reflecting both the shorter period during which the security was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issuance for a marketable Treasury certificate, note, or bond maturing on the quarterly maturity date prior to redemption (in the case of certificates), or on the semiannual maturity period prior to redemption (in the case of notes and bonds), reduced in either case by a penalty which shall be the lesser of:

(A) 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

(B) One-fourth of one percent.

(ii) There shall be deducted 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.

(b) [Reserved]

Subpart C -- Demand Deposit Securities

Section 344.6 Description of securities.

(a) Terms. The securities are one-day certificates of indebtedness. Each subscription is established as a unique account. Securities are automatically rolled over each day unless redemption is requested.

(b) Interest rate.

(1) *Variable rate*. 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, available to the public on such business day. Interest is accrued and added to principal daily. Interest is computed on the balance of the principal, plus interest accrued through the preceding day.

(2) *Calculation*. (i) The annualized effective demand deposit rate in decimals, designated "I" in Equation 1 is calculated as:

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

(Equation 1)

where

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

Y = 365 if the year following issue date does not contain a leap year day and 366 if it does contain a leap year day.

DTN = 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) The daily factor for the demand deposit rate is then calculated as follows:

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

(Equation 2)

(3) *Tax rate, etc*. Information on the estimated average marginal tax rate and costs for administering the demand deposit State and Local Government Series securities program, both to be determined by Treasury from time to time, will be published in the Federal Register.

(c) Payment. Interest earned on the securities is added to the principal and is reinvested daily until redemption. 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, the Department will invest any unredeemed demand deposit securities in special ninety-day certificates of indebtedness. These ninety-day certificates are payable at maturity, but redeemable before maturity, provided funds are available for redemption, or reinvested in demand deposit securities when regular Treasury borrowing operations resume, both at the owner's option. 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.

Section 344.7 Subscription for purchase.

(a) Subscription requirements. Subscriptions for purchase of securities under this offering must be submitted to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102-0396. Subscriptions must be submitted on a designated Treasury form, must specify the principal amount invested and the issue date, and must be signed by an official authorized to make the purchase. The Bureau of the Public Debt must receive the subscription at least five days before the issue date for subscriptions of $10 million or less and at least seven days before the issue date for subscriptions of more than $10 million. Subscriptions for $10 million or less can be canceled without penalty up to five days prior to the issue date. Subscriptions for more than $10 million can be canceled without penalty up to seven days prior to the issue date. The subscription can be submitted by fax at (304) 480-6818, by certified or registered mail, or by other carrier. If faxed, the original subscription form must be received by the Division of Special Investments by 3:00 p.m., Eastern time, on the issue date. Public Debt will not accept subscriptions for demand deposit securities more than 60 days prior to the issue date.

(b) Amending subscriptions. The principal amount to be invested can be changed without penalty on or before the issue date, but no later than 1:00 p.m. Eastern time, on the issue date. The request must be clearly identified as an amendment and must be followed immediately by the submission, by mail or other carrier, of written notification. Where an amendment is not submitted timely, the Division of Special Investments can determine, pursuant to the provisions governing waiver of regulations set forth under 31 CFR 306.126, that such an amendment is acceptable on an exception basis. Where an amendment is determined acceptable on an exception basis, the amended information shall be used as the basis for issuing the securities, and an administrative fee of $100 per subscription is then assessed. This administrative fee is due on demand as provided for in section 344.1(h). The Secretary reserves the right to reject amendments which are not submitted timely.

Section 344.8 Issue date and payment.

The subscriber shall fix the issue date on the subscription at least five days after receipt of the subscription by the Division of Special Investments for subscriptions of $10 million or less and seven days after receipt of the subscription by the Division of Special Investments for subscriptions more than $10 million. Full payment for each subscription must be submitted by the Fedwire funds transfer system with credit directed to the Treasury's General Account. Full payment should be received by the Division of Special Investments by 3:00 p.m., Eastern time, to ensure that settlement on the securities occurs on the issue date.

Section 344.9 Redemption.

(a) General. A security can be redeemed at the owner's option, provided a request for redemption is received not less than one business day prior to the requested redemption date for redemptions of $10 million or less and received not less than three business days for redemptions of more than $10 million. Partial redemptions can be requested in any amount; however, an account balance of less than $1,000 is redeemed in total. Payment is made by Fedwire.

(b) Notice. Notice of redemption must be submitted, either on a designated Treasury form or by letter, by the official(s) authorized to redeem the securities, as shown on the subscription form, to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102-0396. The notice can be submitted by fax to the Bureau of the Public Debt at (304) 480-6818, by mail, or by other carrier. The notice must show the account number and the Tax Identification Number of the government body. The notice of redemption must be received at the Bureau of the Public Debt by 1:00 p.m., Eastern time on the required day.

Subpart D -- Special Zero Interest Securities

Section 344.10 General.

Provisions of subpart B of this Part (Time Deposit Securities) apply except as specified in subpart D of this Part. Special zero interest securities can not be subscribed for after October 28, 1996. All zero interest securities subscribed for after October 28, 1996 will be zero interest time deposit securities, subject to the rules of subpart B of this Part.

Section 344.11 Redemption

(a) Before maturity. Provisions of Section 344.5(a) apply. In general, a security can be redeemed at the owner's option no earlier than twenty-five days after the issue date in the case of a certificate and one year after the issue date in the case of a note. No market charge or penalty shall apply in the case of the redemption of a special zero interest security before maturity.

(b) Notice. Notice of redemption prior to maturity must be submitted, either on a designated Treasury form or by letter, by the official(s) authorized to redeem the securities, as shown on the final subscription form, to the Division of Special Investments, Bureau of the Public Debt, 200 Third Street, P.O. Box 396, Parkersburg, WV 26102-0396. The notice can be submitted by fax to the Bureau of the Public Debt at (304) 480-6818, by mail, or by other carrier. The notice must show the account number, the maturities of the securities to be redeemed, and the Tax Identification Number of the government body. The notice must be received by Public Debt no less than ten days before the requested redemption date, but no more than sixty days before the requested redemption date. A notice of redemption prior to maturity cannot be canceled.

Appendix A to Part 344 -- Early Redemption Market Charge Formulas and Examples for subscriptions from September 1, 1989, through October 27, 1996

A. The amount of the market charge for bonds and notes subscribed for before October 27, 1996 can be determined by the following formula:

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

(Equation 1)

where:

M = Market charge

b = increased annual borrowing cost (i.e., principal multiplied by the excess current borrowing rate for the period from redemption to original maturity of note or bond over the rate for the security)

r = number of days from redemption date to next interest payment date

s = number of days in current semiannual period

i = Treasury borrowing rate over the remaining term to maturity, based on semiannual interest payments and expressed in decimals.

n = number of remaining full semiannual periods from the redemption date to the original maturity date, except that if the redemption date is on an interest payment date, n will be one less than the number of full semiannual periods remaining to maturity.

v^n = $1/\ (1 + i/2)^n$ = present value of 1 due at the end of n periods. (Equation 2)

$a_{n\neg}$ = $(1 - v^n)\ /\ (i/2) = v + v^2 + v^3 + \ldots + v^n$ = present value of 1 per period for n periods. (Equation 3)

B. The application of this formula can be illustrated by the following example:

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

(2) Assume that the note is redeemed on February 1, 1989, and that the current borrowing rate for Treasury at that time for the remaining period of 6 years and 150 days is 11%.

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

(4) The market charge is computed as follows:

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

(Equation 4)

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

(Equation 5)

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

(Equation 6)

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

(Equation 7)

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

(Equation 8)

$$M = \$81{,}318.71$$

(Equation 9)

C. The amount of the market charge for certificates subscribed for before [insert date of publication of final rule [October 28, 1996]] can be determined through use of the following formula:

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

(Equation 10)

where

M = market charge

b = increased borrowing cost for full period

r = number of days from redemption date to original maturity date

s = number of days in current annual period (365 or 366)

i = current borrowing rate expressed in decimals (discount factor)

D. The application of this formula can be illustrated by the following example:

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

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

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

(4) The market charge is computed as follows:

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

(Equation 11)

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

(Equation 12)

$291.69

(Equation 13)

Appendix B to Part 344 -- Formula for Determining Redemption Value for Securities Subscribed for and Early-Redeemed on or After October 28, 1996.

This results in a premium or discount to the government body, depending on whether the current Treasury borrowing rate at the time of early redemption is lower or higher than the stated interest rate of the early-redeemed SLGS security. The total redemption value for bonds and notes can be determined by the following two steps:

First, accrued interest payable in accordance with section 344.5(a)(3)(i) is calculated using the following formula:

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

(Equation 14)

and secondly, the redemption value per Section 344.5(a)(3)(ii) is calculated using the following equation:

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

(Equation 15)

where

RV = Redemption value

F = Face amount redeemed

AI = Accrued interest = [(s-r)/s] x (c/2)

r = Number of days from redemption date to next interest payment date

s = number of days in current semiannual period

i = Treasury borrowing rate over the remaining term to maturity, based on semiannual interest payments and expressed in decimals

C = the regular annual interest

n = number of remaining full semiannual periods from the redemption date to the original maturity date, except that, if the redemption date is an interest payment date, n will be one less than the number of full semiannual periods remaining to maturity.

v^n = $1/(1 + i/2)^n$ = present value of 1 due at the end of n periods.

$a_{\overline{n}|}$ = $(1 - v^n) / (i/2) = v + v^2 + v^3 + \ldots + v^n$ = present value of 1 per period for n periods.

B. The application of this formula can be illustrated by the following examples:

The first example is for a redemption at a premium.

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

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

(3) The redemption value is computed as follows:

First, the accrued interest payable is calculated as:

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

(Equation 16)

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

(Equation 17)

$$AI = \$20{,}349.73$$

(Equation 18)

Then, the redemption value is calculated as:

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

(Equation 19)

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

(Equation 20)

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

(Equation 21)

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

(Equation 22)

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

(Equation 23)

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

(Equation 24)

$$RV = \$806{,}321.97$$

(Equation 25)

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

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

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

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

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

(Equation 16b)

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

(Equation 17b)

$$AI = \$20{,}349.73$$

(Equation 18b)

Then, the redemption value is calculated as:

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

(Equation 19b)

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

(Equation 20b)

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

(Equation 21b)

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

(Equation 22b)

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

(Equation 23b)

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

(Equation 24b)

$$RV = \$791,236.10$$

(Equation 25b)

C. The total redemption value for certificates can be determined by the following two steps:

First, accrued interest payable in accordance with Section 344.5(a)(3)(i) is calculated using the following formula:

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

(Equation 26)

and secondly, the redemption value per Section 344.5(a)(3)(ii) is calculated using the following equation:

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

(Equation 27)

where:

RV = Redemption value

F = Face amount redeemed

AI = Accrued interest = [(d-r) / y] x C

d = Number of days from original issue of the certificate to its maturity date

r = Number of days from redemption date to the certificate's maturity date

y = 365, it the number of days in the year following issue of the certificate does not include a leap year day; 366, if the number of days following issue of the certificate does include a leap year day

i = Treasury borrowing rate over the remaining term to maturity, expressed in decimals

C = the regular annual interest

D. The application of this formula can be illustrated by the following examples.

First, for a redemption at a premium:

(1) Assume that a $300,000 security is issued on December 5, 1996, to mature in 151 days on May 51 1997. Interest at a rate of 5% is payable at maturity.

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

(3) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

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

(Equation 28)

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

(Equation 29)

$$AI = \ \$5{,}136.99$$

(Equation 30)

Then, the redemption value is calculated as:

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

(Equation 31)

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

(Equation 32)

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

(Equation 33)

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

(Equation 34)

$$RV = \$300{,}198.49$$

(Equation 35)

Secondly, for a redemption at a discount:

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

(2) Assume that the security is redeemed on April 9, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 26 days is 6.25%.

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

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

(Equation 28b)

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

(Equation 29b)

$$AI = \$5{,}136.99$$

(Equation 30b)

Then, the redemption value is calculated as:

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

(Equation 31b)

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

(Equation 32b)

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

(Equation 33b)

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

(Equation 34b)

$$RV = \$299{,}711.29$$

(Equation 35b)

DEPARTMENT OF THE TREASURY
Fiscal Service
Bureau of the Public Debt

DEMAND DEPOSIT SECURITIES OF THE STATE AND LOCAL GOVERNMENT SERIES; AVERAGE MARGINAL TAX RATE AND TREASURY ADMINISTRATIVE COSTS

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

ACTION: Notice of estimated average marginal tax rate and Treasury administrative costs for Demand Deposit United States Treasury Certificates of Indebtedness -- State and Local Government Series.

SUMMARY: This notice is being published to provide the information necessary to apply the interest rate formula for Demand Deposit United States Treasury Certificates of Indebtedness -- State and Local Government. Series (31 CFR Part 344, Subpart C). The final regulations governing securities of the State and Local Government Series which appear in the current issue of the Federal Register, in setting out the formula, make provision for the simultaneous publication of this notice (31 CFR 344.5). The factor necessary to convert the interest rate to a tax-exempt equivalent (1 - the estimated average marginal tax rate of purchasers of tax-exempt bonds) is 1-.29 or .71. The Treasury administrative cost is five basis points.

EFFECTIVE DATE: October 28, 1996

FOR FURTHER INFORMATION CONTACT: Fred Pyatt, Director, or Howard Stevens, Supervisory Program Analyst, Division of Special Investments, Parkersburg, WV, at (304) 480-7752.

SUPPLEMENTARY INFORMATION: The Department of the Treasury, under the authority of Chapter 3102 of Title 31, United States Code, and pursuant to the Tax Reform Act of 1986, Pub.L. 99-514, 1301(b), offers a demand deposit United States Treasury Certificate of Indebtedness -- State and Local Government Series. This security is a one-day certificate of indebtedness, issued in an amount of $1,000, or any higher dollar amount, with interest accrued and added to the principal daily. In the final regulations published simultaneously with this notice, provision is made to provide by notice the information necessary to apply the interest rate formula to the new demand deposit certificate, i.e., the average yield for three-month Treasury bills at the most recent auction, multiplied by one minus the estimated average marginal tax rate (1-MTR) of purchasers of tax- exempt bonds, less Treasury administrative cost. The factor "1-MTR" is .71. The Treasury administrative cost is 5 basis points. Both the "1-MTR" and the Treasury administrative cost are subject to redetermination by the Department of the Treasury. Any future changes will be published by notice in the Federal Register.

Dated: * * *

Gerald Murphy,
Fiscal Assistant Secretary