

- (iv) The date; and
- (v) The signature and title of an official authorized to purchase SLGS securities.

(4) *How do I change an initial subscription?* You can change an initial subscription on or before the issue date, but not later than 3:00 p.m., Eastern time, on the issue date. Changes to an initial subscription are acceptable with the following exceptions:

(i) You cannot change the issue date to require issuance earlier than the issue date originally specified. The issue date can be changed up to seven days after the original issue date. If you make such a change, you should notify DSI as soon as possible, but no later than 3:00 p.m., Eastern time, one business day before the original issue date;

(ii) You may change the aggregate principal amount specified in the initial subscription up to \$10 million or ten percent, whichever is greater;

(iii) You can change an interest rate provided it does not exceed the maximum interest rate in the SLGS rate table that was in effect for a security of comparable maturity on the date the initial subscription was submitted (unless the issuer obtains a higher rate by canceling and resubscribing in compliance with this section); and

(iv) If you submit an untimely change, Treasury, in its sole discretion, can accept the change on an exception basis under §344.2(m). Whether we accept the change before or after the issue date, the amended information will be applied to the securities. The six-month penalty will be imposed under §344.2(h). If Treasury waives the six-month penalty, you will be charged a late payment assessment under §344.2(h)(2).

(5) *When is an initial subscription not required?* 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 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 SLGS rate table under §344.4(b).

(c) *What requirements apply to final subscriptions?*

(1) *What form is used to submit a final subscription?* You must submit an electronic or paper Treasury form, PD F 4144 "Subscription for Purchase and Issue of U.S. Treasury Securities State and Local Government Series Time Deposit," as a final subscription.

(2) *What information must be contained on the final subscription?* The final subscription must:

(i) be dated and signed by an official authorized to make the purchase;

(ii) include the Taxpayer Identification Number of the issuer;

(iii) be accompanied with a copy of the initial subscription (or if a SLGSafeSM subscription, the Treasury case number) where applicable;

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

(v) not be more than \$10 million or ten percent, whichever is greater, above or below the aggregate principal amount specified in the initial subscription; and

(vi) 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.

(3) *How do I change a final subscription?* You can change a final subscription on or before the issue date in the same fashion as you change an initial subscription under §344.5(b)(4)(i)-(iv).

(4) *When must I send a final subscription?* DSI must receive a final subscription on or before the issue date, but not later than 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?* To determine how long you must hold a security, follow this table:

If the security is . . .	then, at the owner's option, the security can be redeemed no earlier than . . .
(1) A zero percent certificate of indebtedness of 16 to 29 days.	15 days after the issue date.

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If the security is . . .	then, at the owner's option, the security can be redeemed no earlier than . . .
(2) A certificate of indebtedness of 30 days or more.	25 days after the issue date.
(3) A note or bond	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 notice of early redemption?* Yes. An official authorized to redeem the securities before maturity must submit an electronic or paper notice of redemption. The notice must show the Taxpayer Identification Number of the issuer, the Treasury case number, the security number and the dollar amount of the securities to be redeemed. DSI must receive the notice no less than 10 days and no more than 60 days before the requested redemption date. You cannot cancel the notice.

(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 SLGS 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 deter-

mination 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 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.

(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 re-calculated 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.

EFFECTIVE DATE NOTE: At 70 FR 37911, June 30, 2005, subpart B was revised, effective August 15, 2005. For the convenience of the user, the revised text is set forth as follows:

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

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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

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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

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(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.

(b) *How are interest rates 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.

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 is a Demand Deposit account established?* Each demand deposit subscription will establish a unique account.

(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 three decimals.
Y =	365 (if the year following issue date does not contain a leap year day) and 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 costs for administering demand deposit SLGS securities, both to be determined by Treasury from time to time, will be published in the FEDERAL REGISTER.