Part 1—Chapter 2300

TREASURY INVESTMENT PROGRAM

This chapter guides depositaries participating in the Treasury Investment Program (TIP).

Section 2310—Applicability

Volume IV of the Treasury Financial Manual (TFM) binds financial institutions that accept or originate Federal tax payments. Those institutions also are bound by applicable Federal Reserve Bank (FRB) operating circulars that supplement regulations in Title 31 of the Code of Federal Regulations, Parts 203 and 380 (31 CFR 203 and 380). The Financial Management Service (FMS) makes the TFM available on its website at **www.fms.treas.gov**.

Section 2315—Authority

Title 31 CFR 203 and 380 govern:

- Treasury Tax and Loan (TT&L) depositaries that maintain and administer TIP main account balances and Special Direct Investment (SDI) account balances.
- Collateral security requirements.

Section 2320—Definitions

See IV TFM 1-2000 for definitions.

Section 2325—Investment Option

The Department of the Treasury (Treasury) uses TIP to temporarily invest excess operating funds. It invests funds in obligations of financial institutions designated as Investor depositaries. Open-ended notes comprise these obligations. The FRB reflects additions and reductions on its books. It may require these depositaries to be electronically connected to the FRB. TT&L depositaries must pledge collateral to secure all funds invested with TIP (see Section 2355).

2325.10—Eligibility

Any financial institution may apply to participate in the investment option of TIP. The FRB, acting as Treasury's fiscal agent, approves TIP participation based on its assessment of an institution's financial condition. If the financial institution is a State-chartered bank or credit union, the FRB bases its approval on the opinion of the State-chartering authority.

2325.20—Application Process

To apply for TIP participation, financial institutions must submit two forms to the National Customer Service Area (NCSA). Financial institutions must complete FMS 458: Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depositary. They also must submit FMS 459: Resolution Authorizing the Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depositary. On FMS 458, the institution must select either the Retainer or Investor option.

If a financial institution already designated as a Collector depositary applies for TIP participation, it must submit an Election of Option Form.

NCSA certifies financial institutions as depositaries and provides all three forms to financial institutions. NCSA will notify a financial institution of its acceptance or non-acceptance as a TIP participant.

2325.30—Effective Date

NCSA will place approved depositaries in the Retainer or Investor option as of the beginning of the next business day. Depositaries should contact NCSA for the effective start date.

2325.40—Balance Limit

Both Retainer and Investor depositaries must declare an acceptable maximum investment amount (balance limit) of at least $25,000 with the NCSA. A depositary may change this balance limit by submitting a request via FedLine®. However, depositaries that frequently reduce their balance limit may be subject to Treasury sanctions.

2325.50—Collateralization of TIP Main Account Balances

Treasury requires that a depositary pledge collateral to fully secure its balance limit at all times (see Section 2355). This applies to all depositaries, including those participating in the Direct Investment program, Dynamic Investment feature or Special Direct Investment program (see Sections 2335, 2340 and 2345). If a depositary fails to collateralize its balance limit, the actual collateral value will be used to calculate capacity instead of balance limit.

2325.60—Sources of Investments

Treasury funds invested in a depositary's TIP main account balance include:

- Monies received as Federal Tax Deposit (FTD) coupons.
- Electronic Federal Tax Payment System (EFTPS) Automated Clearing House (ACH) credit and debit entries.
- Fedwire® value payments.
- Fedwire® non-value transactions.
- FedLine® taxpayer deposit application transactions.

FTD Coupons

A TT&L depositary posts funds remitted with FTD coupons to its TT&L account balance the same business day of the taxpayer's deposit. Then, the NCSA will post the amount listed on the Advice of Credit (AOC) to the depositary's TIP main account balance if the depositary has the capacity. It will post this amount on the date it is submitted electronically by the depositary usually on the business day after the date shown on the AOC. These funds will remain invested in the depositary's TIP main account balance until Treasury initiates a withdrawal. In cases where deposits would exceed a depositary's capacity, the NCSA automatically will withdraw excess funds when it processes the transaction.

EFTPS ACH Credit and Debit Entries

The NCSA posts ACH tax deposits or payments to the TIP main account balance on the day of settlement. Both ACH debit and credit transfers result in a debit to the reserve account of the depositary, or its designated correspondent. They result in a credit to Treasury for the amount of the ACH tax deposit or payment. The NCSA posts ACH credits at 8:30 a.m. eastern time (e.t.) and ACH debits at 11 a.m. e.t.

Each business day, EFTPS provides summary files of ACH tax deposit or payment activity for financial institutions and depositaries to the NCSA. The NCSA processes this information through TIP. For a Retainer or Investor depositary, NCSA credits the reserve account (or the designated TT&L correspondent's reserve account) and posts the funds to the depositary's TIP main account balance in the amount of the ACH tax deposit or payment. This offsets the resulting debit to the reserve account balance for the same ACH transaction.

These funds remain invested in the TIP main account balance until Treasury initiates a withdrawal. In addition, the NCSA automatically will withdraw all funds in excess of a depositary's capacity.

EFTPS Fedwireâ Non-Value and FedLineâ Taxpayer Deposit Application Transactions

The NCSA posts Fedwire® non-value and FedLine® taxpayer deposit application transactions to the TIP main account balance throughout the day on the day of settlement. These funds remain invested in the TIP main account balance until Treasury initiates a withdrawal. The NCSA automatically will withdraw all funds in excess of the depositary's capacity.

EFTPS Fedwireâ Value (Typecode 1000) Payments

Other sources of Treasury investments include EFTPS Fedwire® value payments. The FRB debits Fedwire® value tax payments against the reserve account of the financial institution or depositary and credits them to the Treasury General Account (TGA) immediately upon receipt. Fedwire® value information is passed hourly to TIP. TIP reinvests these monies with Investor and Retainer depositaries, credits the depositary, and debits the TGA.

Additional Sources of Investments

The Direct Investment and SDI programs provide additional investment sources to Investor depositaries (see Sections 2335, 2340 and 2345).

2325.70—Withdrawal (Call) of Balances

The Secretary of the Treasury initiates withdrawals (or calls for payment) from TIP main account balances through the NCSA. The NCSA determines a call of balance by the depositary's class. (For information on depositary classes, see IV TFM 1-2035.) The amount of the TIP main account balance is payable on demand without prior notice. Whenever possible, Treasury provides advance notice of a call of balance. The depositary's class generally determines the amount of advance notice it will be given in the case of a call of balance, for example:

- Retainer and Investor Option Class A depositaries generally receive 5 business days' notice. NCSA processes the call action at 10:30 a.m. e.t. Notice of the call action appears on the depositary's daily activity statement at approximately 10:45 a.m. e.t. generally 5 business days before the call. NCSA will post the call to the TIP main account balance and debit the reserve account on the date specified in the notice.
- Retainer and Investor Option Class B depositaries generally receive 3 business days' notice. NCSA processes the call action at 10:30 a.m. e.t. generally 3 business days before the call. Notice of the call action appears

on the depositary's daily activity statement at approximately 10:45 a.m. e.t. The NCSA will post the call to the TIP main account balance and debit the reserve account on the date specified in the notice.

- Retainer and Investor Option Class C depositaries generally receive either 1 business day prior or same business day notice from NCSA, as determined by Treasury.

  (1) **One-day prior notice—**NCSA processes the call at 10:30 a.m. e.t. Notice of the call action appears on the depositary's daily activity statement at approximately 10:45 a.m. e.t. 1 business day before the call. NCSA posts the call to the TIP main account balance and debits the reserve account on the date specified in the notice.

  (2) **Same-day notice—**NCSA processes the call action at 10:30 a.m. e.t. Notice of the call action appears on the depositary's daily activity statement at approximately 10:45 a.m. e.t. on the business day of the call. NCSA posts the call to the TIP main account balance and debits the reserve account on that business day.

Section 2330—Changes of Option for TT&L Depositaries

A depositary may change options (between Retainer, Investor or Collector) by notifying NCSA at least 1 business day in advance. The depositary is subject to the provisions of the existing option until NCSA formally notifies it of the change in option. All changes are effective as of the next business day. A depositary should not change options more than three times annually. If a depositary changes options frequently, it may be subject to Treasury sanctions.

2330.10—Retainer or Investor Depositary

After NCSA formally notifies a Retainer or Investor depositary of its change to Collector depositary, NCSA also withdraws the TIP main account balance on its books on the day before the effective date of the change. The NCSA will not process any calls for payment with an effective date after the change in option. The NCSA will process Paper Tax System (PATAX) deposits received, or settled, on and after the effective date of change per Collector depositary procedures.

2330.20—Collector Depositary

Upon receiving a change in option from Collector to Retainer or Investor, the NSCA determines if the depositary is eligible to be a Retainer or Investor. When it formally notifies a Collector depositary of a change to Retainer or Investor, the NCSA places the depositary in Retainer or Investor Class A, B or C (see IV TFM 1-2035). NCSA will process all PATAX deposits received, or settled, on and after the effective date of change per Retainer or Investor procedures. NCSA subjects all AOCs dated before, but received after, the effective date to Collector requirements for the time between the AOC date and the effective date of the change in option. The NCSA adds these AOCs to the TIP main account balance as of the effective date of the change in option. If an assessment of late charges is in order, the NCSA assesses it for the time before the effective date of the change in option.

2330.30—Termination of Acceptance of FTD Coupons

A depositary may stop accepting FTD coupons after it notifies NCSA in writing.

Customer Notification

A depositary should give its customers a minimum of 60 calendar days' notice (90 calendar days is preferable) that it will stop accepting FTD coupons. As a customer service, depositaries should make EFTPS enrollment forms available to their customers.

Retainer or Investor Impact

A depositary that stops FTD coupon processing functions may still participate in the TIP. Credits to the TIP main account balance may include EFTPS ACH debit and credit entries, Fedwire® value payments, Fedwire® non-value transactions and FedLine® taxpayer deposit application transactions. Termination of FTD coupon processing functions will not affect the depositary's ability to process EFTPS transactions.

Collector Impact

A depositary that stops FTD coupon processing functions may still process EFTPS transactions. The term "Collector" relates to the processing of FTD coupons. Therefore, when the NCSA accepts a Collector depositary's decision to terminate FTD coupon processing, the Collector depositary becomes a financial institution (a financial institution processing EFTPS deposits and payments). This applies unless it chooses to change from a Collector depositary to a Retainer or Investor depositary.

Section 2335—Direct Investment Program

The Direct Investment program offers a portion of Treasury's excess operating funds directly to Investor depositaries that elect to receive them. The FRB may require these Direct Investment participants to be connected electronically to the FRB.

2335.10—Direct Investment Application Process

A depositary participating in the Direct Investment program must submit to the NCSA a completed Treasury Tax and Loan Depositary Offer to Receive Direct Investments form. The NCSA provides these forms. A depositary must elect one of the Direct Investment notification arrangement options (see paragraph 2335.15). The NCSA will notify the depositary of the date it qualifies for Direct Investment according to the notification arrangement elected by the depositary.

This arrangement binds a depositary until it formally submits a written change request to the NCSA and the NCSA processes that request.

2335.15—Direct Investment Notification Arrangements

The NCSA distributes Direct Investment funds based on a participating depositary's capacity. The NCSA distribution follows these notification arrangements:

- One-day prior notice—The NCSA notifies each depositary participating under the Direct Investment 1-day prior notice arrangement of a Direct Investment 1 business day before posting the funds to the depositary's (or its TT&L correspondent's) reserve account.
- Same-day notice—Depositaries that elect the 1-day prior notice arrangement also may elect to participate in the same-day notice arrangement. Under the same-day notice arrangement, the NCSA notifies a depositary of a Direct Investment on the same day. At the same approximate time, the Direct Investment credits the funds to the depositary's (or its TT&L correspondent's) reserve account.

2335.20—Direct Investment Program Distribution

The NCSA distributes Direct Investment funds to participants on either a 1-day prior notice arrangement or a combination of a 1-day prior and same-day notice arrangement (see paragraph 2335.15). It distributes Direct Investment funds based on actual capacity.

- The NCSA calculates a depositary's actual capacity for the 1-day notice by subtracting its TIP main account balance from the depositary's collateral value or balance limit (whichever is lower). It will subtract pending investments from and add pending withdrawals to that amount.
- The NCSA calculates a depositary's actual capacity for the same-day notice by subtracting the TIP main account balance from the depositary's collateral value or balance limit (whichever is lower).

2335.25—Examples of Direct Investment Distributions

Example of 1-Day Prior Notice Distribution

(1) The total capacity of all Direct Investment depositaries electing 1-day prior notice distributions is $6 billion on Wednesday (day 1).

(2) Treasury elects to directly invest $3 billion on Thursday (day 2).

(3) The NCSA would announce this Direct Investment on Wednesday (day 1), calculate it based on Wednesday's 1-day capacity and distribute it on Thursday (day 2).

(4) On Thursday (day 2), the NCSA would distribute to each 1-day prior notice depositary Direct Investment funds equal to 50 percent of the depositary's Thursday (day 2) actual available capacity.

Based on the above scenario, the NCSA would notify a depositary on Wednesday that it will receive a transfer of 50 percent of its actual available capacity of Treasury's excess operating funds. Also on Wednesday, the NCSA would calculate the 1-day actual capacity of a depositary with a balance limit of $500 million and collateral value of $450 million as follows:

Collateral value	$450 million
TIP main account balance	-200 million
Pending investments	- 0
Pending withdrawals	+ 50 million
Available capacity	$300 million

On Thursday, the NCSA would credit $150 million (50 percent of its $300 million actual capacity) of the Direct Investment funds to the depositary's (or its TT&L correspondent's) reserve account and add them to the depositary's TIP main account balance as long as the actual available capacity on Thursday is not lower than the generated investment.

Example of Same-Day Notice Distribution

(1) The total capacity of all Direct Investment depositaries electing same-day notice is $4 billion on Wednesday morning (day 1).

(2) Treasury elects to directly invest $1 billion on Wednesday (day 1).

(3) On Wednesday, the NCSA would distribute to each same-day notice depositary Direct Investment funds equal to 25 percent of each individual depositary's actual available capacity.

Based on the above scenario, the NCSA would notify a depositary that it will receive a transfer of 25 percent of its actual available capacity of Treasury's excess operating funds on Wednesday. Also on Wednesday, NCSA would calculate the actual capacity of a depositary with a balance limit of $700 million and collateral value of $750 million as follows:

Balance limit	$700 million
TIP main account balance	- 300 million
Available capacity	$400 million

On Wednesday, the NCSA would credit $100 million (25 percent of its $400 million actual available capacity) of the Direct Investment funds to the depositary's (or its TT&L correspondent's) reserve account and add them to the depositary's TIP main account balance.

2335.30—Direct Investment Balance Limit

Direct Investment depositaries must declare an acceptable maximum investment amount with the NCSA. The established balance limit for depositaries participating in the Direct Investment program must be at least $125,000. The balance limit for the Direct Investment program should be higher than the depositary's daily peak balance normally generated by its tax deposits.

The NCSA, at its discretion, may permit the depositary to temporarily reduce its balance limit below $125,000.

A depositary should not change its balance limit frequently. The NCSA will impose sanctions on a depositary that frequently reduces its balance limit.

2335.35—Direct Investment Announcements

The NCSA processes Direct Investment announcements at 10:30 a.m. e.t. and notifies the depositary on its daily activity statement at approximately 10:45 a.m. e.t.

The NCSA notifies Direct Investment depositaries under the 1-day prior notice arrangement on their TIP daily activity statement by approximately 10:45 a.m. e.t. on the business day before it places Direct Investment funds in the depositary's (or its TT&L correspondent's) reserve account.

Under the same-day notice arrangement, the NCSA notifies Direct Investment depositaries on their TIP daily activity statement by approximately 10:45 a.m. e.t. on the business day it places Direct Investment funds in the depositary's (or its TT&L correspondent's) reserve account.

2335.40—Timing for Direct Investment Funds

The NCSA posts Direct Investment funds to a depositary's TIP main account balance at the same time it credits the funds to the depositary's reserve account (or that of its TT&L correspondent). Under the 1-day prior notice arrangement, it posts Direct Investment funds to the depositary's TIP main account balance and credits them to the depositary's reserve account 1 business day after the day of announcement. This is called the day of "placement." The NCSA posts Direct Investment funds under the same-day notice arrangement to the depositary's TIP main account balance and credits them to the depositary's (or its TT&L correspondent's) reserve account on the day of announcement.

Interest begins to accrue on the date the NCSA posts the funds to the depositary's TIP main account balance.

2335.45—Withdrawal (Call) of Balances Placed as Direct Investments

The NCSA does not differentiate funds received under the Direct Investment program from any other funds in the depositary's TIP main account balance. Therefore, these balances are subject to call on the same basis as any other part of the TIP main account balance. Call procedures are based on depositary class (see paragraph 2325.70).

2335.50—Direct Investments Not Included in Totals Used for Reclassification

Annually, the FRB reclassifies Retainer and Investor depositaries. It classifies a depositary as either Class A, B or C (see IV TFM 1-2035) based on the depositary's:

- FRB TT&L application deposits during the previous calendar year.
- Deposit liabilities (both demand and time) as of September 30 of the previous year.
- Balance limit.

In classifying a depositary, the FRB does not include funds the depositary received under the Direct Investment program.

2335.55—Collateral Requirement for Direct Investment Balances

A depositary must secure its TIP main account balance by a pledge of collateral (see Section 2355). For Direct Investment fund purposes, a depositary must set a balance limit that is higher than its anticipated daily peak FRB TT&L application deposits. The depositary must pledge collateral to cover its total FRB TT&L application deposits and Direct Investment funds.

Section 2340—Dynamic Investment Feature

Depositaries may elect to participate in the Dynamic Investment feature. Investor depositaries participating in this program receive investments throughout the day. These investments consist of Treasury's accumulated excess operating funds previously credited to the TGA. The FRB may require that depositaries participating in the Dynamic Investment feature be connected electronically to the FRB.

2340.10—Dynamic Investment Feature Application Process

Dynamic Investment feature participants must have elected the same-day notification arrangement option (Offer to Receive Direct Investments form). An Investor depositary will establish its own cutoff time for investments between noon and 5 p.m. e.t.

The NCSA will notify the depositary of the effective date it qualifies to act under its notification arrangement option. This arrangement binds the depositary until NCSA processes a formal, written change request from the depositary.

2340.20—Dynamic Investment Feature Notification Arrangements

The NCSA distributes Dynamic Investment funds to participating depositaries based on capacity.

2340.30—Dynamic Investment Feature Distribution

The NCSA distributes Dynamic Investment funds to each participant hourly, beginning at noon e.t. and ending at 5 p.m. e.t. unless the depositary's established cutoff time is earlier or Treasury turns off the feature. The NCSA distributes these funds based on capacity.

2340.40—Dynamic Investment Feature Announcements

Dynamic Investment feature announcements appear on a depositary's daily activity statement at approximately 10 minutes after the hour.

2340.50—Timing for Dynamic Investment Feature Funds

The NCSA posts Dynamic Investment funds to a depositary's TIP main account balance at the same time the funds are credited to the reserve account of the depositary (or its TT&L correspondent). The NCSA posts Dynamic Investment funds to the depositary's TIP main account balance and credits them to the depositary's reserve account at approximately 20 minutes past the hour between noon and 5 p.m. e.t.

Interest begins to accrue on the date the NCSA posts the funds to the depositary's TIP main account balance.

2340.60—Withdrawal (Call) of Balances Placed as Dynamic Investments

The NCSA does not differentiate funds received by depositaries under the Dynamic Investment feature from any other part of the depositary's TIP main account balance. Therefore, these balances are subject to call on the same basis as any other part of the TIP main account balance. As always, call procedures are based on depositary class (see paragraph 2325.70).

Section 2345—Special Direct Investment Program

The SDI program is a placement of Treasury's excess operating funds into the SDI account balance secured by an off-premises collateral (OPC) arrangement. The FRB may require that depositaries participating in the SDI program be connected electronically to the FRB.

Treasury, as a creditor acting through the FRB, obtains a perfected security interest in collateral pledged by a depositary to secure an SDI. Treasury does not take possession of the collateral pledged for a 21-day period from the time the security interest in the collateral attaches (that is, when the FRB credits SDI funds to the depositary's reserve account). A written security agreement must be in effect, and the debtor must have rights in the collateral. Because of the 21-day limit, Treasury's internal procedures ensure that balances placed with depositaries under SDIs do not remain with depositaries longer than 21 calendar days.

2345.10—Eligibility Requirements

A depositary electing to participate in the SDI program must:

- Currently participate in the Direct Investment program (see Section 2335).
- Pledge acceptable OPC collateral (see paragraph 2345.60) in a minimum amount of $2.5 million. The amount of collateral pledged under the OPC arrangement cannot exceed an amount equal to 10 percent of a depositary's total assets based on the depositary's December call report or yearend balance sheet.
- Abide by the same terms and conditions of the FRB's Borrower-in-Custody of Collateral Program (BIC) used by depositaries to secure borrowings from the FRB. (For BIC requirements, contact the local FRB's Credit Discount Department.)

2345.15—SDI Application Process

A depositary electing to participate in the SDI program must submit a completed Agreement to Secure Special Direct Investment form to the NCSA. The NCSA will review the information submitted by the depositary for compliance with prescribed terms and eligibility requirements. A depositary must elect one of the SDI notification arrangements listed in paragraph 2345.20. The NCSA will notify the depositary of the effective date it may act under the agreed-upon notification arrangement.

The NCSA provides all the required forms. The local FRB Credit Discount Department will provide instructions to establish the OPC arrangement, including security agreements and other credit discount forms or statements. The depositary's elected notification arrangement binds a depositary until NCSA processes a formal, written change request submitted by the depositary.

2345.20—SDI Notification Arrangements

The NCSA announces an SDI in the same way it currently announces placement of funds in the Direct Investment program. The difference between the depositary's collateral value (see paragraphs 2345.60 and 2355.20) pledged to the SDI program and its current SDI account balance is called its SDI capacity. The NCSA distributes SDI balances based on SDI capacity to participating depositaries based on the following notification arrangement:

- One-day prior notice—The NCSA notifies each depositary participating under the 1-day prior notice arrangement of an SDI 1 business day before it distributes the funds.
- Same-day notice—Depositaries electing to participate in the 1-day prior notice arrangement also may choose to participate in the same-day notice arrangement. Under the same-day notice arrangement, the NCSA notifies a depositary of an SDI on the same day, and at the same approximate time, as it credits the funds to the reserve account of the depositary (or its TT&L correspondent).

2345.25—SDI Program Distribution

The NCSA distributes SDI funds to each participant on either a 1-day prior notice arrangement or a 1-day prior notice and same-day notice arrangement. It distributes SDI funds based on the depositary's actual SDI capacity.

- The NCSA calculates actual capacity for the 1-day notice by subtracting the depositary's SDI account balance from its SDI collateral value. The NCSA also subtracts SDI pending investments from and adds SDI pending withdrawals to that amount. The result is the depositary's actual SDI capacity.
- The NCSA calculates actual capacity for the same-day notice by subtracting the SDI account balance from the depositary's SDI collateral value.

2345.30—Examples of SDI Distributions

Example of 1-Day Prior Notice Distribution

(1) The total capacity of all SDI depositaries electing 1-day prior notice is $6 billion on Wednesday (day 1).

(2) Treasury elects to directly invest $3 billion on Thursday (day 2).

(3) The NCSA would announce this SDI on Wednesday (day 1), calculate it based on Wednesday's 1-day capacity and distribute it on Thursday (day 2).

(4) On Thursday (day 2), the NCSA would distribute to each 1-day prior notice depositary SDI funds equal to 50 percent of each individual depositary's Wednesday 1-day capacity as long as the actual available capacity on Thursday is not lower than the generated investment.

Based on the above scenario, on Wednesday, the NCSA would notify a depositary that it will receive a transfer of 50 percent of its SDI actual available capacity of Treasury's excess operating funds. On Wednesday, the NCSA would calculate the actual 1-day capacity of a depositary with an SDI collateral value of $500 million as follows:

SDI collateral value	$500 million
SDI account balance	-150 million
Pending SDI investments	-100 million
Pending SDI withdrawals	+ 50 million
SDI available capacity	$300 million

On Thursday, the NCSA would credit $150 million (50 percent of its $300 million 1-day capacity) of the SDI funds to the depositary's (or its TT&L correspondent's) reserve account. It would then add them to the depositary's SDI account balance as long as the actual available capacity on Thursday is not lower than the generated investment.

Example of Same-Day Notice Distribution

(1) The total SDI collateral value of all SDI depositaries electing same-day notice is $4 billion on Wednesday morning (day 1).

(2) Treasury elects to directly invest $1 billion on Wednesday (day 1).

(3) Therefore, on Wednesday, the NCSA would distribute to each same-day notice depositary SDI funds equal to 25 percent of each individual depositary's actual available capacity.

Based on the above scenario, on Wednesday, the FRB would notify a depositary that it will receive a transfer of 25 percent of its SDI actual available capacity of Treasury's excess operating funds. On Wednesday, the FRB would calculate the SDI actual capacity of a depositary with an SDI collateral value of $700 million as follows:

SDI collateral value	$700 million
SDI account balance	-300 million
SDI available capacity	$400 million

On Wednesday, the NCSA would credit $100 million (25 percent of its $400 million actual available capacity) of the SDI funds to the depositary's (or its TT&L correspondent's) reserve account. It would then add them to the depositary's SDI account balance.

2345.35—Minimum Amount of SDI Funds

Treasury has no limit on the amount of SDI funds it places. There is no minimum. However, in no case will the depositary's SDI account balance exceed the collateral pledged.

2345.40—SDI Announcements

The NCSA processes SDI announcements at 10:30 a.m. e.t. It notifies the depositary on the depositary's daily activity statement at approximately 10:45 a.m. e.t.

2345.45—Timing for SDI Funds

The NCSA adds SDI funds to a depositary's SDI account balance at the same time it credits the funds to the depositary's reserve account.

- Under the 1-day prior notice arrangement, the NCSA posts SDI funds to the depositary's SDI account balance and credits them to the depositary's reserve account on the day of placement (1 day after the day of announcement).
- Under the same-day notice arrangement, the NCSA posts SDI funds to the depositary's SDI account balance and credits them to the depositary's reserve account on the day of announcement.

Interest begins to accrue on the date the NCSA adds the funds to the SDI account balance.

2345.50—Withdrawal (Call) of Balances Placed as SDIs

The NCSA withdraws SDI balances from the SDI account balance. The NCSA notifies the depositary of these withdrawals on the depositary's daily activity statement, which is available at approximately 10:45 a.m. e.t. Depositaries must pay SDI balances on demand without prior notice. However, Treasury generally gives a depositary 1-day prior notice of withdrawals.

2345.55—SDIs Not Included in Totals Used for Reclassification

Annually, the FRB reclassifies Retainer and Investor depositaries into Classes A, B and C (see IV TFM 1-2035). The FRB bases its classification on the depositary's:

- FRB TT&L application deposits during the previous calendar year.
- Deposit liabilities (both demand and time) as of September 30 of the previous year.
- Balance limits.

The FRB does not include SDI program funds received by depositaries in the figures it uses for reclassifying depositaries.

2345.60—Collateral Requirements for SDI Balances

The local FRB Credit Discount Department must approve the pledging depositary's collateral procedures to secure SDI account balances. It subjects these procedures to the same terms and conditions of its BIC program, which depositaries use to secure borrowings from the FRB.

Collateral Location

The pledging depositary, which retains possession of the collateral on its own premises in an OPC arrangement, holds the collateral to secure SDI account balances. It must hold the collateral available at all times for on-site FRB review.

Acceptable Types of Collateral to Secure SDI Balances

Eligible collateral to secure SDI account balances includes:

- One-to-four family mortgages.
- Insured student loans (notes representing educational loans insured or guaranteed under the program authorized by Title IV of the Higher Education Act of 1965, as amended, or Title VII of the Public Health Services Act, as amended).

In addition, all pledged collateral must be:

- Deemed acceptable by the Federal Reserve System to secure borrowings from an FRB for its BIC collateral program.
- Held by the pledging depositary institution that retains possession of the collateral on its own premises under an OPC arrangement.

Contact the local FRB's Credit Discount Department or the NCSA for specific information on the acceptability of collateral pledged to secure SDI account balances. (See paragraph 2355.)

Collateral Valuation

The FRB applies the same value and techniques used for collateral under its BIC program to collateral pledged under OPC arrangements. When a depositary pledges declining balance collateral, the FRB may require that the depositary furnish at least monthly (or more frequently at the FRB's request) an updated statement showing the revised value of the collateral pledged. (See paragraph 2355.)

Collateral Amount

All SDI account balances must be 100 percent collateralized.

2345.65—Advice of Custody Information

Depositaries participating in the SDI program must comply with FRB instructions. They also must submit collateral reports to the FRB, as required.

Section 2350—Computation and Collection of Interest on TIP Main Account Balances

The NCSA charges interest on a depositary's TIP main account balance from the date it credits the funds. It determines the amount of interest due by applying the weekly interest rate factor to the average daily account balance for each week of the reporting cycle.

2350.10—Computation and Basis of Interest Charges on TIP Main Account Balances and SDI Account Balances

The NCSA determines the interest on the TIP main account balance and the SDI account balance. It does so by multiplying the interest rate factor for the investment program by the average daily amount of the TIP main account balance and the SDI account balance for each week. It determines the average daily amount by dividing the sum of the daily closing account balances by 7. The weekly period runs from Thursday through Wednesday. For Saturday and Sunday, the NCSA carries forward the balance at close of business on Friday as the balance for Saturday and Sunday. For other FRB nonbusiness days, the NCSA carries forward the previous business day's balance as the balance for the nonbusiness calendar day.

On the first business day after the close of a TT&L reporting cycle, the NCSA collects interest due Treasury through the depositary's reserve or clearing account (or the designated TT&L correspondent's reserve account). The NCSA includes this information in the depositary's daily activity statement, available in the early afternoon. TIP charges appear on Thursday's daily activity report (see IV TFM 1-2040).

Section 2355—Collateral Security Requirements

The terms and conditions in 31 CFR 203 and 380, as amended, require that a TT&L depositary pledge acceptable collateral security. The pledged collateral security must cover all amounts credited to the depositary's TT&L account in excess of recognized insurance coverage and the total established balance limit in the depositary's TIP main account balance, if applicable. If a depositary's collateral value falls below its balance limit, the NCSA will automatically debit the depositary's TIP main account balance and its reserve account.

If the depositary:

- Fails to pay, when due, the whole or any part of the funds received for credit to its TIP main account balance, and/or if applicable, its SDI account balance.
- Violates or fails to perform any of the terms of 31 CFR 203 and 380.
- Fails to pay, when due, amounts owed to the United States or the U.S. Treasury.

OR

- Is closed for business by regulatory action or by proper corporate action, or a receiver, conservator, liquidation or any other officer is appointed.

Then, the Secretary of the Treasury, with or without notice or demand, may:

- Redeem or sell, at either public or private sale(s), or otherwise collect the proceeds of all or part of the collateral, including additions or substitutions.
- Apply the proceeds, after deducting all necessary expenses of such redemptions or sale(s), to the payment of funds received by the depositary, or other indebtedness of the depositary, to satisfy any claim of the United States against the depositary.

Treasury will hold separate and apart from any other asset all principal and interest payments on any collateral pledged to protect the SDI account balance and/or the TIP main account balance, as applicable, due as of the date of the insolvency or closure, or thereafter becoming due. These payments will constitute a part of the pledged collateral available to satisfy any claim of the United States.

2355.10—Acceptable Collateral

Treasury's Bureau of the Public Debt (BPD) has the regulatory authority (31 CFR 380) and procedural responsibility to establish acceptable collateral (see the Contacts page). It determines the collateral valuation for TIP. Collateral to fully secure the TIP main account balance and SDI account balance must be marketable securities or instruments.

The local FRB's Credit Discount Department provides information on the acceptability of specific collateral within the acceptable classes. Information regarding acceptable collateral for the TT&L program is distributed periodically and posted to the BPD's website (**www.publicdebt.treas.gov**) and the Federal Reserve's Financial Services website (**www.frbservices.org**). Unless specified otherwise by Treasury, the following are classes of acceptable collateral:

- Obligations issued and fully insured or guaranteed by the U.S.

Government or a U.S. Government agency.

- Obligations of U.S. Government-Sponsored Enterprises (GSE) and Government-Sponsored Corporations (GSC) that under specific statute may be accepted as security for public funds.
- Obligations issued or fully guaranteed by international development banks.
- Insured student loans or notes representing educational loans insured or guaranteed under a program authorized under Title IV of the Higher Education Act of 1965, as amended, or Title VII of the Public Health Service Act, as amended.
- General obligations issued by States of the United States and Puerto Rico.
- Obligations of counties, cities or other U.S. governmental authorities or instrumentalities that are not in default as to payments on principal or interest and that may be purchased by banks as investment securities under the limitations established by appropriate Federal bank regulatory agencies.
- Obligations of domestic corporations that may be purchased by banks as investment securities under the limitations established by appropriate Federal bank regulatory agencies.
- Qualifying commercial paper, commercial and agricultural loans, and bankers' acceptances approved by the Federal Reserve System at the direction of Treasury.

2355.20—Collateral Valuation

Generally, Treasury's BPD applies a collateral valuation consistent with the Federal Reserve System guidelines for valuation of the same types of collateral pledged to secure borrowings from the FRB (discount window). The FRBs, at the direction of Treasury, apply a collateral valuation approach that relies on market values for assets where reliable and active markets exist. Where market information is not readily available, the FRB considers major risks inherent in the assets pledged in determining collateral value. Contact the local FRB's Credit Discount Department for valuations assigned to specific collateral. Information regarding the valuation of acceptable collateral for the TT&L program is distributed periodically and posted to BPD's website (**www.publicdebt.treas.gov**) and the Federal Reserve's Financial Services website (**www. frbservices.org**).

2355.30—Custody of Collateral

Depositaries place collateral security with the FRB, or a custodian within the United States designated by the FRB, under FRB-prescribed terms and conditions. Depositaries also may pledge collateral under an extended custody arrangement. The local FRB's Credit Discount Department provides terms and conditions that permit depositaries to pledge collateral under an extended custody arrangement.

SDIs must be secured by OPC or BIC arrangements (see paragraph 2345.60).

The FRB must authorize all custodians. All custodians are subject to FRB review procedures, including on-site reviews. If one FRB authorizes a custodian under an agreement form, the authorization automatically is binding throughout the Federal Reserve System. The custodian must ensure the pledged collateral satisfies FRB-prescribed collateral standards.

Contact the local FRB's Credit Discount Department for a list of collateral custodians and extended collateral custodians.

2355.40—Ownership of Collateral

The depositary must own all collateral free and clear of liens, charges and claims.

Contacts

Direct additional inquiries concerning policies, guidelines and operating procedures (except acceptable collateral and collateral valuation as noted below) to:

Electronic Banking Services Division
Financial Management Service
Department of the Treasury
401 14th St. SW., Room 313
Washington, DC 20227
Telephone: 202-874-6580

Direct inquiries concerning operating procedures in this chapter to the NCSA at 888-568-7343.

Direct inquires concerning acceptable collateral and collateral valuation that the local FRB's Credit Discount Department cannot resolve to:

Government Securities Regulations Staff
Bureau of the Public Debt
Department of the Treasury
999 E St. NW., Room 315
Washington, DC 20239
Telephone: 202-691-3632

Information regarding acceptable collateral and its respective valuation for the TT&L program is distributed periodically and posted to BPD's website (**www.publicdebt.treas.gov**) and the Federal Reserve's Financial Services website (**www. frbservices.org**).