



Guide for Collateral in lieu of Surety bonds

BACKGROUND

The information contained in this guide is presented as a general overview of collateral program operations for federal agencies accepting collateral in lieu of a surety bond (31 CFR Part 225). It does not supersede or replace any requirements contained in:

- a) Specific Treasury Fiscal Service Collateral Program agreements, regulations, and policies, or
- b) Federal Reserve Bank Operating Circulars, clearing memos, or other guidelines.

The guide may be periodically updated to reflect current information. A more comprehensive version of this guide, directed toward financial institutions, will be available through a link on the Federal Reserve Financial Services website at <http://www.frbservices.org>.

If you have any questions regarding the Treasury's CFR Part 202 and CFR Part 225 collateral programs; including pledging collateral, collateral eligibility, collateral program account set-up, and collateral account maintenance procedures, please contact Treasury Collateral Management and Monitoring Operations Support (TCMM) at 1-888-568-7343 (select menu option 2, and then select menu option 1).

GLOSSARY OF TERMS

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

Borrower-In-Custody (BIC): Also referred to as Off-Premise Collateral (OPC). BIC refers to an arrangement by which a depository pledges certain types of acceptable assets as collateral to secure public funds. The depository is permitted to retain possession of the collateral on its own premises, subject to the terms and conditions agreed upon between the Treasury, the Reserve Bank, and the depository.

Bureau of the Fiscal Service (Fiscal Service): A bureau of the Treasury with regulatory responsibility for establishing acceptable collateral and for determining the valuation of collateral for Treasury Fiscal Service collateral programs. Fiscal Service provides central payment services to federal program agencies, operates the federal government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt owed to the federal government.

Collateral: A marketable security or financial asset that has been determined by the Treasury and reviewed by a Reserve Bank as acceptable for pledging to a Treasury collateral program. Depending on the program, the pledgor or obligor provides collateral to secure deposit balances at risk to the Treasury or a Federal agency or in lieu of performance bonds.

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

Computer Interface: A communications link between computers at a financial institution and a Reserve Bank.

Depository: A financial institution authorized to secure public money on deposit and submit a bond secured by government obligations as collateral in lieu of bonds with sureties.

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

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

Treasury Collateral Management and Monitoring (TCMM): A centralized application operated by a Federal Reserve Bank to monitor securities and other financial assets pledged as collateral to various Treasury programs.

TCMM Operations: Manages monitoring functions for collateral pledged to the Treasury and government agencies.

- Performs new collateral account set-up, account maintenance, and collateral withdrawals.
- Provides customer support for obligors/pledgors and government agencies as custodian and in its role as Fiscal Agent for the United States Treasury.
- Retains records for all collateral functions and related activities.

Third-Party Custodian: A financial institution acting as a custodian holding pledged assets as collateral approved by a Reserve Bank acting as the Treasury's fiscal agent.

Treasury Support Center (TSC): A centralized Reserve Bank function that provides customer service for various Treasury programs.

Definitions of abbreviations used in discussing collateral:

ATBC - Amount To Be Collateralized

BIC - Borrower-in-Custody

BPD - Bureau of the Public Debt

CFR - Code of Federal Regulations

CMS - Collateral Management System

DTC - Depository Trust Company

DTCC - Depository Trust and Clearing Corporation

FMS - Financial Management Service

OPC - Off-Premise Collateral

TCMM - Treasury Collateral Management and Monitoring

TSC - Treasury Support Center

UST - United States Trustee for Bankruptcy

WOS - Wholesale Operations Site

TITLE 31 CFR PART 225 - ACCEPTANCE OF BONDS SECURED BY GOVERNMENT OBLIGATIONS IN LIEU OF BONDS WITH SURETIES

Purpose and Requirements

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

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

Acceptable Collateral

Acceptable collateral is currently limited to only public debt obligations of the United States government whose principal and interest are unconditionally guaranteed by the United States government (excluding stripped components). This collateral are certain classes of transferable securities that are acceptable as collateral to secure obligations in lieu of a surety bond, or to secure deposits of Bankrupt estates under the jurisdiction of the U.S. Trustees Office or a Bankruptcy court or judge.

For a current listing of acceptable collateral, pledgors should refer to the TreasuryDirect website at:

http://www.treasurydirect.gov/instit/statreg/collateral/collateral_acc225Acceptablecollateral.pdf

For more specific questions about acceptable collateral, institutions should contact TCMM Operations Support at 1-888-568-7343 (select menu option 2, and then select menu option 1).

Collateral Valuation

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

A copy of the current collateral margin table for the 225 program is available on the TreasuryDirect website at:

[http://www.treasurydirect.gov/instit/statreg/collateral/225%20Margins%20Table%20\(06.03.14\).pdf](http://www.treasurydirect.gov/instit/statreg/collateral/225%20Margins%20Table%20(06.03.14).pdf)

This table identifies the appropriate margin values for acceptable collateral as approved by the Treasury.

For more specific questions about acceptable collateral and its valuation, depositaries should contact TCMM Operations Support at 1-888-568-7343 (select menu option 2, and then select menu option 1).

Collateral Account Maintenance

Opening an Account

Collateral accounts opened under the 225 program are divided into two distinct groupings:

U.S. Trustees for Bankruptcy (UST)

Account designations for the UST have been standardized across all Reserve Banks. All UST 225 program collateral accounts begin with the letter “S.” Each UST region is assigned a region number, which occupies the next two characters, and each office within a region is assigned an alpha character for the last character of the collateral account number (e.g., S01A refers to the UST for Region 1 and the Boston office).

For a depository to establish an existing UST 225 program collateral account under its Fedwire securities account structure, the depository must contact the UST to ensure that all necessary forms are completed and obtain the 225 program collateral account number assigned to that UST office. Then the agency should contact the Federal Reserve to give written authorization to have the UST 225 program collateral account opened on the Fedwire Securities Service.

Other Government Agencies and Bankruptcy Courts

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

For a depository to establish an existing Bankruptcy court account, the depository needs to ensure that all necessary forms are completed with the respective Bankruptcy court. A contact name at the Bankruptcy court should be obtained. The depository should also obtain the four-digit alphanumeric character 225 program collateral account number from the Bankruptcy court. If the Bankruptcy court does not have a 225 program collateral account currently established, the bond official should contact the Federal Reserve to set up a 225 program collateral account.

After the 225 program collateral account is verified or established, the agency will need to provide the Federal Reserve with written authorization to have the 225 program collateral account opened for its account on the Fedwire Securities Service.

Closing an Account

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

If a government agency no longer requires a 225 program collateral account, the bond official should contact TCMM Operations Support at 1-888-568-7343 (select menu option 2, and then select menu option 2).

Amount To Be Collateralized (ATBC)

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

Collateral Monitoring

Collateral held under the 225 program is monitored based on the collateral value pledged, not par value. Depositories pledging collateral under the 225 program need to ensure that the current collateral value will be sufficient to cover the ATBC. The TCMM application receives real-time updates throughout the business day until the close of TCMM (refer to TCMM Operating Hours as listed in the Additional Resources Section).

Collateral Deficiencies

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

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

When a deficient account is identified during TCMM's collateral monitoring process, the Federal Reserve will inform the depository that additional collateral must be deposited as soon as possible. If the account is held under the government agency structure, the bond official will be informed that there is a deficiency in the account due to one of the above mentioned reasons (a-d).

Mergers and Acquisitions

If a depository (the non-survivor) participating in the 225 program is merging into another depository (the survivor), instructions concerning the disposition of collateral held under any 225 program collateral account(s) for the non-survivor should be included in the merger information provided by the survivor to its local Reserve Bank, which will forward the information for further processing.

If the legal and operational mergers occur on different dates, the non-survivor's account will have the recognized insurance coverage for its 225 account balances for the first six months after the legal merger date. The survivor will be responsible for ensuring that sufficient collateral is pledged for the non-survivor's account by the end of the sixth month after the legal merger date. The non-survivor's account may be retained for up to one year after the legal merger date.

If the survivor requests that the collateral be transferred before the operational merger date, it should contact TCMM Operations Support at 1-888-568-7343 (select menu option 2, and then select menu option 1) for further instructions.

Prior to the operational merger date, the Federal Reserve will contact the bond officials for the 225 program collateral account(s) involved to verify ATBCs and obtain authorization to move the collateral. On the operational merger date after receiving authorization from the respective bond official(s), the Federal Reserve will authorize the transfer of any securities held under the non-survivor's account to the survivor's appropriate 225 program collateral account(s).

Please contact TCMM Operations Support at 1-888-568-7343 (select menu option 2, and then select menu option 1) to discuss any specific questions regarding the 225 collateral program.

ADDITIONAL RESOURCES

- **Bureau of the Fiscal Service**

https://www.fiscal.treasury.gov/fsservices/gov/rvnColl/tcmm/rvnColl_tcmm.htm

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

- **TreasuryDirect**

<http://www.treasurydirect.gov/instit/statreg/collateral/collateral.htm>

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

- **Financial Services**

<http://www.frbsecurities.org>

This website gives information on Treasury collateral programs and the Fedwire Securities Service. The Treasury Services information page will have information on the Treasury's collateral programs and the Reserve Bank collateral services. The Fedwire Securities page will give current information on the Fedwire Securities Service and provides a Fedwire Securities Guide.

PROCESSING TIME FRAMES

Processing Time Frames for Treasury Collateral Management and Monitoring

Opening of TCMM.....	8:00 a.m. ET
Closing time for TCMM.....	6:00 p.m. ET