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## Operating Circular 7

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## **1.0 PURPOSE, SCOPE AND EFFECT OF THIS CIRCULAR**

**1.1** This Operating Circular ("Circular") sets forth the terms under which the Federal Reserve Bank of (City) maintains Securities Accounts and effects Transfers of Book-Entry Securities for Participants. By maintaining a Securities Account, a Participant agrees to all the provisions of this Circular, as amended from time to time. Capitalized terms are defined in Paragraph 3.

**1.2** Each Reserve Bank has issued a Circular No. 7 identical to this one.

## **2.0 GOVERNING REGULATIONS**

**2.1** This Circular incorporates by reference the current provisions of the regulations listed in Appendix A as such regulations are amended from time to time.

## **3.0 DEFINITIONS**

**3.1** For purposes of this Circular, the following definitions apply.

**3.2** **Administrative Reserve Bank** with respect to a Participant means the Reserve Bank in whose District the Participant is located.

**3.3** **Board** means the Board of Governors of the Federal Reserve System.

**3.4** **Book-Entry Security** means a marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks

have determined is eligible to be held in a Securities Account and is eligible for Transfer.

**3.5** **Fedwire** means the electronic facility operated by the Reserve Banks for maintaining Securities Accounts and for effecting Transfers.

**3.6** **Free Transfer** means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

**3.7** **Master Account** means an account with reserve and/or clearing balances on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A. A Master Account does not contain Book-Entry Securities.

**3.8** **On-Line Access** means a connection for the transmission of a Transfer Message directly to or from a Reserve Bank by electronic data transmission, excluding facsimile and oral transmission by telephone.

**3.9** **On-Line Participant** means a Participant with On-Line Access.

**3.10** **Off-line Access** means a connection other than On-Line Access for sending and receiving Transfer Messages to or from a Reserve Bank such as by written, facsimile, or telephone voice instruction.

**3.11** **Off-line Participant** means a Participant with Off-line Access.

**3.12** **Participant** means an entity that maintains a Securities Account with a Reserve Bank in the entity's name. Subject to the Reserve Banks' and the Board of Governor's risk reduction policies, where applicable, entities authorized by law, regulation, policy, or agreement to be Participants include:

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(a) depository institutions as defined in Section 19(b)(1)(A) of the Federal Reserve Act, as amended (12 U.S.C. §461(b)(1)(A));

(b) agencies and branches of foreign banks as defined in Section 1(b) of the International Banking Act of 1978, as amended (12 U.S.C. §§3101(1) and (3));

(c) member banks of the Federal Reserve System pursuant to Regulation H issued by the Board (12 C.F.R. Part 208);

(d) the Treasury and any entity specifically authorized by Federal statute to use the Reserve Banks as fiscal agents or depositories;

(e) entities designated by the Secretary of the Treasury in accordance with Section 15 of the Federal Reserve Act (12 U.S.C. §391);

(f) foreign central banks, foreign monetary authorities, foreign governments, and certain international organizations;

(g) entities authorized under Section 25, Paragraph 3, and Section 25A of the Federal Reserve Act (12 U.S.C. §§601 (Third), 611); and

(h) any other entity authorized by a Reserve Bank to use Fedwire Book-Entry Securities services.

**3.13 Receiver** means the Participant receiving a Book-Entry Security as a result of a Transfer.

**3.14 Reserve Bank** means one of the 12 Federal Reserve Banks and its branches.

**3.15 Restricted Securities Account** means a Securities Account used for pledging Book-Entry Securities to a pledgee on the books of a Reserve Bank in accordance with this Circular.

**3.16 Securities Account** means an account at a Reserve Bank containing Book-Entry Securities.

**3.17 Sender** means the Participant sending a Transfer Message.

**3.18 Transfer** means the electronic movement over Fedwire of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

**3.19 Transfer Message** means an instruction of a Participant to a Reserve Bank to effect a Transfer.

**3.20 Transfer Against Payment** means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

**3.21 Unrestricted Securities Account** means a Securities Account used to maintain Book-Entry Securities for a Participant and does not include a Restricted Securities Account.

## 4.0 SECURITIES ACCOUNT MAINTENANCE

### 4.1 SECURITIES ACCOUNT LOCATION AND IDENTIFICATION OF THE ADMINISTRATIVE RESERVE BANK

**4.1.1** A Participant may have one or more Securities Accounts at its Administrative Reserve Bank, subject to the terms required by the Administrative Reserve Bank. Securities Accounts may be restricted or unrestricted.

**4.1.2** A Participant's Administrative Reserve Bank is the Reserve Bank in whose district the Participant is located. For purposes of this Circular, a Participant is located in the Federal Reserve District

as determined under the procedure described in 12 C.F.R. Part 204 even if the Participant would not otherwise be subject to Part 204. A foreign central bank Sender or Receiver is located in the Second Federal Reserve District.

## **4.2 UNRESTRICTED SECURITIES ACCOUNTS**

4.2.1 A Participant may hold Book-Entry Securities it owns, as well as Book-Entry Securities it holds for the account of its customers, in one or more Unrestricted Securities Accounts. Regardless of the combination or number of Unrestricted Securities Accounts maintained by a Participant, all Book-Entry Securities held in an Unrestricted Securities Account are held by a Reserve Bank for, and subject to, the sole order of the Participant.

4.2.2 A Reserve Bank does not reflect in its records any interest of a Participant's customers in Book-Entry Securities held by the Reserve Bank for the Participant in an Unrestricted Account, and is not responsible for the accuracy or content of the records of a Participant with respect to Book-Entry Securities held by the Participant for the account of its customers. A Participant shall not represent to its customers that the Reserve Bank's records reflect the interests of the Participant's customers.

4.2.3 Any name used by a Participant or a Reserve Bank to identify an Unrestricted Securities Account is for convenience only and does not alter the Reserve Bank's right to treat the Participant as exclusively entitled to exercise the rights and powers with respect to the Book-Entry Securities in such Securities Accounts.

## **4.3 RESTRICTED SECURITIES ACCOUNTS**

4.3.1 A Participant may hold Book-Entry Securities pledged as collateral in one or more Restricted Securities Accounts. Credits of Book-Entry Securities to, and debits from, Restricted Securities Accounts may require the intervention of the Reserve Bank and may require the approval of the pledgee.

4.3.2 Restricted Securities Accounts include, but are not limited to, the following:

(a) Restricted Securities Accounts in which the Reserve Bank holds Book-Entry Securities in its individual capacity:

(i) as collateral for advances (including extension of intra-day credit) by the Reserve Bank to the Participant;

(ii) as collateral to secure the exercise of trust powers within a state or deposits of funds of public entities (including states, municipalities, and other political subdivisions — see Appendix C);

(iii) as collateral for bankruptcy funds on deposit with the Participant pursuant to 11 U.S.C. §345; and

(iv) for such other purposes as the Reserve Bank may designate; and

(b) Restricted Securities Accounts in which a Reserve Bank holds Book-Entry Securities in its capacity as fiscal agent of the United States:

(i) as collateral to secure balances held by the Participant in Treasury Tax and Loan accounts under 31 C.F.R. Part 203, as amended from time to time (Treasury Circular 92);

(ii) as collateral for revenues and funds of the United States, and any funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents, or employees pursuant to 31 C.F.R. Part 202, as amended from time to time (Treasury Circular 176);

(iii) as security in lieu of a surety on penal or other bonds, pursuant to 31 C.F.R. Part 225, as amended from time to time (Treasury Circular 154); and

(iv) for such other purposes as the Secretary of the Treasury may approve, subject to Treasury circulars or other relevant instructions.

4.3.3 Proceeds of Book-Entry Securities, including interest payments on Book-Entry Securities, held in a Restricted Securities Account at maturity or call may be held by a Reserve Bank in a non-interest-bearing account until substitute collateral is posted or the pledge is released.

## **5.0 TERMS OF ACCESS**

5.1 Each Participant is responsible for all access to, and all debits and credits to, its Securities Accounts and its Master Account. A Participant may use the services of a third-party service provider, as described in and subject to Paragraph 18 and Appendix C of Operating Circular 6 on Funds Transfers through Fedwire.

5.2 A Participant must maintain a Master Account at a Reserve Bank to be a Sender or a Receiver of Transfers Against Payment; the Administrative Reserve Bank reserves the right: (1) to require a Participant to maintain a balance in its Master Account or to pledge collateral sufficient at all times to cover Transfers Against Payment for which the Participant is the Receiver, (2) to limit a Receiver to Free Transfers, or (3) to limit Transfers Against Payment or to reject Transfer Messages.

5.3 A Participant that does not have or is not permitted to have a Master Account in its own name may only be a Sender or a Receiver of Free Transfers, and must designate a correspondent (on a form provided by the Administrative Reserve Bank) with a Master Account on a Reserve Bank's books which shall be credited for principal and interest payments on Book-Entry Securities, and debited for transaction fees as described in Paragraph 14; a Reserve Bank will reject Transfer Messages for Transfers Against Payment to a Participant that does not have a Master Account or that is only permitted to be a Receiver of Free Transfers.

## **6.0 THE ROLES OF THE RESERVE BANKS IN A BOOK-ENTRY SECURITIES TRANSFER**

6.1 A Participant's Administrative Reserve Bank may instruct any other Reserve Bank concerning the other Reserve Bank's handling of a Transfer Message affecting the Participant's Securities Account(s) and Master Account.

## **7.0 EXECUTION OF TRANSFERS**

### **7.1 DEBITS AND CREDITS**

7.1.1 Book-Entry Securities are credited to a Participant's Securities Account in accordance with Reserve Bank policies and, when relevant, the regulations and policies of the issuers of the Book-Entry Securities, including whenever a Participant:

(a) is a Receiver, or receives Book-Entry Securities moved from the TREASURY DIRECT System (described at 31 C.F.R. Part 357.20 *et seq.*) to its Securities Account;

(b) purchases Book-Entry Securities on original issue; or

(c) converts eligible definitive securities to book-entry form or from one book-entry form to another book-entry form (*e.g.*, stripping and reconstituting).

7.1.2 Book-Entry Securities are debited to a Participant's Securities Account in accordance with Reserve Bank policies, and when relevant the instruction of the issuer, including whenever:

(a) a Reserve Bank effects a Transfer for a Participant that is a Sender, or a Participant requests that Book-Entry Securities be moved into the TREASURY DIRECT System;

(b) Book-Entry Securities held in a Securities Account mature or are called for redemption; or

(c) a Participant converts eligible Book-Entry Securities to bearer or registered definitive securities or from one book-entry form to another book-entry form (e.g., stripping and reconstituting).

7.1.3 The Sender's Master Account is credited and the Receiver's Master Account is debited for the amount specified by the Sender in any Transfer Against Payment sent by the Sender.

7.1.4 The Sender and the Receiver of a Transfer irrevocably authorize and instruct the Reserve Bank(s) involved in the Transfer to debit the Sender's designated Securities Account and credit the Receiver's designated Securities Account for the par amount of the Book-Entry Securities, and to credit the Sender's Master Account and debit the Receiver's Master Account for the payment in the case of a Transfer Against Payment.

7.1.5 If a Transfer is returned in accordance with this Circular, the Sender and the Receiver of the Transfer irrevocably authorize and instruct the Reserve Bank(s) involved in the Transfer to debit and credit the Sender's and the Receiver's Securities Accounts and their corresponding Master Accounts in order to offset any debits or credits previously made in connection with the Transfer.

## **7.2 CONDITIONS OF ACCESS**

7.2.1 The Reserve Banks provide Participants with On-line Access or Off-line Access but reserve the right to terminate a Participant's access without prior notice.

7.2.2 The Reserve Banks may record by audio recording device any telephone call relating to a Transfer.

7.2.3 A Participant, whether on-line or off-line, shall indemnify the Reserve Banks for any loss incurred by a Reserve Bank as a result of the Participant's delay in sending or receiving a Transfer, if the delay results from the Participant's failure to be able to send or receive a Transfer to or from the Reserve Banks.

7.2.4 On-Line Access. An On-line Participant must manage its access in order to receive timely acknowledgment of credits and debits to its Securities Accounts and its Master Account during Fedwire operating hours. If a Participant fails to manage its communications connection in such a manner, a Reserve Bank may limit any attempts to send acknowledgments of credits and debits to the Participant's computer. In such cases, the Participant should dial into the Reserve Bank's computer when its connection is reestablished.

### **7.2.5 Off-line Access**

(a) A Sender must provide Transfer Messages, and a Receiver must provide anticipated receipt instructions, in writing, by facsimile transmission, or by telephone under an authorized name on file with the appropriate Reserve Bank handling the off-line Transfers. The Reserve Bank shall call the Participant's place of business to verify a Transfer Message or other instruction and may require verification of all Transfer Messages or other instructions through codeword.

(b) For Unrestricted Securities Accounts, if a Receiver has not given anticipated receipt instructions the Transfer will be reversed as promptly as possible.

(c) For Restricted Securities Accounts, if a Receiver has not given anticipated receipt instructions and confirmation of the instruction cannot be obtained, the Transfer may be reversed.

## **7.3 FORMAT AND CONTENT OF TRANSFER MESSAGES**

7.3.1 A Transfer Message must be in the media and format the Reserve Banks prescribe. A Reserve Bank will not act on instructions in a Transfer Message other than information required by the format specifications. The Reserve Banks are not responsible for the accuracy of a routing number contained in or verbally supplied from a publication, list or automated file issued or maintained by a Reserve Bank if the routing number becomes inaccurate after the effective date of the publication, list, or automated file.

7.3.2 A Transfer Message must use the identifying number of the Sender and the Receiver associated with its head office in the Administrative Reserve Bank's District or, for a Sender or Receiver authorized to have Securities Account(s) with multiple Reserve Banks, the appropriate identifying number associated with the Securities Account on the books of a Reserve Bank other than the Administrative Reserve Bank. If the appropriate identifying number is not used, the Transfer will be rejected.

7.3.3 If a Transfer Message does not designate which Securities Account of the Receiver is to be credited, the Transfer will be rejected.<sup>1</sup>

7.3.4 A Reserve Bank is entitled to rely on any Transfer Message or instruction (whether or not authorized) that it reasonably believes to be genuine.

## **8.0 SECURITY PROCEDURES**

8.1 A Participant shall prevent any disclosure, except on a "need to know" basis, of any aspects of the security procedures agreed to by it with a Reserve Bank. The Participant shall notify a Reserve Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

## **9.0 SETTLEMENT OF BOOK-ENTRY SECURITIES TRANSFERS**

9.1 Finality. Unless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to both the Sender's and the Receiver's Securities Accounts and, in the case of Transfer Against Payment, their corresponding Master Accounts. Notice of the Transfer is conclusive evidence that the debit(s) and credit(s) were made. Transfers may be reversed only by a separate Transfer effected by a Transfer Message using the reversal code, or Transfers may be returned by the Administrative Reserve Bank in accordance with Paragraph 7.2.5(b). A Reserve Bank reserves the right to debit or credit Securities Accounts (without further authorization or instruction) to correct any Transfer errors.

9.2 Subject to Paragraph 4.3.3, and unless otherwise instructed by the issuer, the Reserve Bank credits payments of principal and interest on Book-Entry Securities to the Participants (or, subject to prior written agreement on a form provided by a Reserve Bank, its correspondent's) Master Account on the due date (or the next business day, if the payment date falls on a weekend or holiday) to the extent there are available funds of the issuer.

9.3 Credits of principal and interest payments on Book-Entry Securities to a Master Account are final, subject only to a Reserve Bank's right to debit or credit the Master Account (without further authorization or instruction) to correct any payment errors.

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1. Until the Federal Reserve Bank of New York converts to the National Book-Entry System (NBES), a Transfer Message that does not designate which Securities Account of the Receiver is to be credited, sent to a Receiver located in the Second Federal Reserve District, will result in a credit to the Securities Account designated as a default by the Receiver. Similarly, a Transfer Message sent by a Sender in the Second Federal Reserve District that does not designate which Securities Account of the Receiver should be credited, will result in a credit to the Securities Account designated as a default by the Receiver.

## **10.0 LIMITATIONS ON TRANSFERS OF BOOK-ENTRY SECURITIES**

### **10.1 GENERAL RESTRICTIONS ON TRANSFERS**

10.1.1 Transfers are not authorized on or after the date of maturity of a particular issue, or on or after the redemption date of a bond or note that has been called for redemption. Certain issues may contain restrictions which do not allow Transfers for a specified time period prior to maturity.

10.1.2 A Reserve Bank will not accept instructions from a Sender (or a Receiver) to credit (or debit) a correspondent's Master Account for a payment in connection with a Transfer Against Payment.

### **10.2 AMOUNT LIMITATIONS ON TRANSFERS**

10.2.1 There is a par amount maximum of \$50 million for Transfers (the "Limit"). The Limit applies to all Transfers, as well as to transfers with the Federal Reserve's Open Market Desk, except as provided in Paragraph 10.2.2. A Reserve Bank will reject a Transfer Message with a par amount greater than the Limit.

10.2.2 The Limit on Transfers does not apply to:

(a) transactions, including the original issuance of Book-Entry Securities and requests to strip and reconstitute Book-Entry Securities, to or from a Reserve Bank in its capacity as fiscal agent of the United States, Federal and Federally-sponsored agencies, or international organizations; and

(b) Debits or credits to Restricted Securities Accounts on a Reserve Bank's books.

10.2.3 Participants should establish procedures to ensure that large Transfers are not delayed until late in the day. Specifically, each Participant should encourage its customers to provide delivery instructions to it

as soon as practical after a trade is executed and to deliver Book-Entry Securities as soon as (par amount) lots of Book-Entry Securities at the Limit are in position.

### **10.3. IMPROPER USE OF THE REVERSAL CODE**

10.3.1 A Participant must not send a Transfer Message for the first time during the reversal period by using the reversal code. A Receiver of such an improper Transfer that is unable to reverse it by a reversing Transfer Message to the Sender may request an as-of adjustment as discussed in Paragraph 13.1.

10.3.2 No misuse of the reversal code has occurred if a Transfer effected by a Transfer Message sent initially and properly during the origination period using the origination code is reversed one or more times by a Transfer Message using the reversal code. However, a Reserve Bank will not handle any request for compensation arising from such a use of the reversal code; this must be handled directly by the Sender and the Receiver.

## **11.0 TRANSFER HOURS AND EXTENSIONS**

11.1 A Reserve Bank effects Transfers in accordance with the schedule of operating hours in Appendix B. However, the Reserve Banks may decide in their sole discretion to open or close Fedwire at an earlier time, or to extend Fedwire, to facilitate special market needs. The Reserve Banks may also close Fedwire early on certain days when the United States Government securities market observes partial- or full-day holidays. Annually, the Reserve Banks will issue a notice identifying these early close days, and, in addition, will issue a reminder to all Participants approximately two weeks in advance of each early close day.

11.2 A Participant requiring an extension of Fedwire operating hours should contact its Administrative Reserve Bank as soon as possible. A request for an extension



received less than twenty minutes before the scheduled Fedwire closing time will not be granted. An extension may be granted only if:

- (a) there is a failure of Reserve Bank and/or Fedwire network equipment;
- (b) there is a significant operating problem at a bank or major dealer; or
- (c) the extension is deemed necessary, in the Administrative Reserve Bank's view, to prevent market disruption (i.e., the dollar value of delayed transfers exceeds \$500,000,000).

**11.3** When requesting an extension, the Participant will be required to state the dollar amount and volume of unprocessed Transfer Messages and to assess the severity of any operating problems.

**11.4** Every extension of Fedwire is broadcast electronically to all Reserve Banks and all On-line Participants.

## **12.0 NOTICES**

**12.1** The Reserve Bank sends to a location specified by a Participant a notice following each credit or debit to the Participant's Securities Account(s). The notice is not a negotiable or a transferable receipt but is merely confirmation of a completed Transfer. The Reserve Bank sends an On-line Participant an electronic notice, and an Off-Line Participant a printed notice, of each debit or credit to its Securities Account(s). The Reserve Bank also attempts to notify an Off-Line Participant by telephone of each debit or credit.

**12.2** After 3:30 p.m. eastern time (absent an extension of Fedwire), each On-line Participant is provided with:

- (a) a summary of funds debited or credited to the Participant's Master Account as a result of Transfers Against Payment; and

- (b) a summary of net balances for each Book-Entry Security issue for which there was activity.

**12.3** Each Participant also receives information detailing principal and/or interest payments credited to its (or its correspondent's) Master Account.

**12.4** A Participant must notify the Reserve Bank in writing of an exception to any notice, summary, or statement as soon as possible (in no event later than 10 calendar days from the date of the notice, summary, or statement).

## **13.0 REQUESTING AS-OF ADJUSTMENTS**

**13.1** A Participant may request that its Administrative Reserve Bank make an as-of adjustment for improper use of the reversal code, and for delays and operational errors caused by a Reserve Bank. The Participant must submit written documentation supporting the request within two business days of the transaction giving rise to the request.

## **14.0 TRANSFER AND SECURITIES ACCOUNT MAINTENANCE FEES**

### **14.1 FEES**

**14.1.1** The fees imposed for non-Treasury Book-entry Securities services are listed in the Reserve Banks' fee schedule as amended from time to time. Fees are not assessed for the following Restricted Securities Accounts, nor for Transfers affecting the following Restricted Securities Accounts: Treasury Tax and Loan (TT&L), Loans and Discounts, and Circular 176.

### **14.2 BILLING OF FEES**

**14.2.1** The Participant's (or, subject to prior written agreement on a form provided by a Reserve Bank, its correspondent's) Master Account is debited for fees for Treasury

Book-Entry Securities daily. These fees are assessed by Treasury and may not be offset against earnings credits.

14.2.2 Fees for Book-Entry Securities other than Treasury Book-Entry Securities are billed monthly and debited to the Participant's (or, subject to prior written agreement on a form provided by a Reserve Bank, its correspondent's) Master Account. These fees may be offset against earnings credits.

14.2.3 A Participant that does not have a Master Account is not relieved of its liability for any fees it incurs by using Fedwire.

## **15.0 EMERGENCY CONDITIONS**

### **15.1 FAILURE OF A PARTICIPANT'S EQUIPMENT**

15.1.1 On-line Participants are responsible for developing their own contingency and recovery plans, such as back-up computer and operations facilities, to ensure their ability to continue Fedwire operations in the event of equipment failure or other operational interruption. The Reserve Banks assume no responsibility for providing any back-up access facilities for Participants.

### **15.2 FAILURE OF RESERVE BANK EQUIPMENT**

15.2.1 In the event of an emergency or failure of a Reserve Bank's computer or operations facilities, Transfers may be delayed until the emergency or failure is resolved. During extended disruptions, the Reserve Bank's Fedwire operations may be relocated to a back-up site. Participants should refer to the Reserve Bank's contingency guidelines regarding Participant requirements and responsibilities during contingency operations.

15.2.2 On-line Participants should be prepared to reconcile their positions up to the point of the failure under the Reserve Bank's instructions.

15.2.3 A Reserve Bank will notify On-line Participants of an operating problem at

another Reserve Bank and, should the problem be deemed critical, will give instructions to On-line Participants.

## **16.0 LIMITATIONS ON LIABILITY**

16.1 The Reserve Banks are not liable for the insolvency, neglect, misconduct, mistake, or default of any other entity or person, including a Participant. Except as otherwise specifically provided herein, the account-holding Reserve Bank is liable only for the actual direct loss sustained by the immediate Participants to a transaction proximately caused by the Reserve Banks' failure to exercise ordinary care or act in good faith: with respect to Reserve Bank liability to such Participants, only the Reserve Bank holding the Sender's account is liable to the Sender and only the Reserve Bank holding the Receiver's account is liable to the Receiver. The amount of a Reserve Bank's liability to a Participant is limited to no more than the dollar amount of the transaction plus reasonable interest and incidental expenses, unless the Participant's claim is based on delay of a transaction in which case the Reserve Bank's liability is limited to reasonable interest and incidental expenses. In no event shall a Reserve Bank be liable for consequential, indirect, incidental or special damages (including lost profits), however derived, and regardless of whether the Reserve Bank has been informed of the possibility thereof.

16.2 In addition to the liability of an account-holding Reserve Bank, a Reserve Bank handling an off-line Transfer is liable to its immediate Participant for the actual direct losses resulting from the Reserve Bank's handling of the Transfer, that are proximately caused by the Reserve Bank's failure to exercise ordinary care or act in good faith, subject to the first, third, and fourth sentences of Paragraph 16.1.

16.3 The Administrative Reserve Bank may in its discretion satisfy an obligation of any of the Reserve Banks to pay interest hereunder by providing an as-of adjustment or by paying compensation.

## **17.0 MULTIPLE MASTER ACCOUNTS**

**17.1** Under certain circumstances a Participant may have multiple Master Accounts at its Administrative Reserve Bank with each Master Account having associated Securities Accounts and/or one or more Master Accounts at Reserve Banks other than its Administrative Reserve Bank with each Master Account having associated Securities Accounts.

**17.2** Notwithstanding any provision of this Circular, during any period when a Participant is authorized to maintain Securities Accounts at multiple Reserve Banks, any debit or credit made pursuant to this Circular will be made to the Securities Account and Master Account associated with the identifying number of the Participant used in the Transfer.

## **18.0 RIGHT TO AMEND**

**18.1** The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

## **19.0 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS**

**19.1** This Circular amends and supersedes all prior Reserve Bank operating circulars on book-entry securities account maintenance and transfer services including any supplements or appendices thereto issued prior to April 9, 2001.

## **Appendix A**

### **APPLICABLE REGULATORY CITATIONS GOVERNING BOOK-ENTRY SECURITIES OF AGENCIES, INSTRUMENTALITIES, AND ESTABLISHMENTS OF THE UNITED STATES**

- 12 C.F.R. Part 615, Subpart O (Farm Credit System).
- 12 C.F.R. Part 615, Subpart R (Farm Credit System Financial Assistance Corporation).
- 12 C.F.R. Part 615, Subpart S (Federal Agricultural Mortgage Corporation).
- 12 C.F.R. Part 912 (Federal Home Loan Banks).
- 24 C.F.R. Part 81 Subpart H (Federal Home Loan Mortgage Corporation).
- 24 C.F.R. Part 81, Subpart H (Federal National Mortgage Association).
- 12 C.F.R. Parts 912, 950.4 (Financing Corporation).
- 12 C.F.R. Part 1511 (Resolution Funding Corporation).
- 31 C.F.R. Part 354 (Student Loan Marketing Association).
- 18 C.F.R. Part 1314 (Tennessee Valley Authority).
- 31 C.F.R. Part 357, Subpart B (United States Department of the Treasury).

## Appendix B

### FEDWIRE OPERATING HOURS FOR BOOK-ENTRY SECURITIES TRANSFERS<sup>1</sup>

#### ON-LINE TRANSFERS

Opening of Fedwire <sup>2</sup> .....	8:30 a.m. (ET)
Closing Time for Transfer Originations <sup>2</sup> .....	3:15 p.m. (ET)
Closing Time for Transfer Reversals <sup>2</sup> .....	3:30 p.m. (ET)
Closing Time for Repositions Against Payment <sup>3</sup> .....	4:30 p.m. (ET)
Closing Time for Repositions Free of Payment <sup>3</sup> .....	7:00 p.m. (ET)

#### OFF-LINE INSTRUCTIONS

Begin accepting instructions .....	9:00 a.m. (ET)
Cut-off for accepting instructions for current days processing <sup>4</sup> .....	1:30 p.m. (ET) <sup>5</sup>
Cut-off for accepting instructions for future days processing .....	4:00 p.m. (ET) <sup>5</sup>

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1. The Reserve Banks observe standard legal holidays which include: All Saturdays, All Sundays, New Year's Day (January 1), Martin Luther King's Birthday (third Monday in January), President's Day (third Monday in February), Memorial Day (last Monday in May), Independence Day (July 4), Labor Day (first Monday in September), Columbus Day (second Monday in October), Veterans' Day (November 11), Thanksgiving Day (fourth Thursday in November), and Christmas Day (December 25). If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.
  2. The Reserve Banks may decide, in their sole discretion, to open or close Fedwire at an earlier time, or extend Fedwire, to facilitate special market needs. Reserve Banks may also close Fedwire early on certain days when the United States Government securities market observes partial- or full-day holidays. Annually this Bank will issue a notice identifying these early close days and, in addition, will notify all Participants of each scheduled early closing approximately two weeks in advance of the closing.
  3. Only available in NBES. "Reposition against payment" means the transfer of Book-Entry Securities against payment between two accounts of the same Participant.
  4. An attempt will be made to process Off-line instructions received after the cut-off time, but cannot be guaranteed. The requesting Participant will be notified if the Transfer is not effected.
  5. A Reserve Bank, in its sole discretion, may extend this cutoff hour.

## Appendix C

### CUSTODY AGREEMENT FOR BOOK-ENTRY SECURITIES

This Appendix sets forth the terms under which this Bank holds Book-Entry Securities in custody for the benefit of a state or local government or unit thereof to which the securities have been pledged. Unless otherwise agreed in writing between this Bank and a Pledgee, this Appendix applies only to Book-Entry Securities pledged for the purposes specified in Paragraphs 4.3.2(a)(ii) of this Operating Circular ("Circular"). This Appendix constitutes an agreement, as described in the Applicable Regulations, regarding the security interest of a non-Participant in Book-Entry Securities held by a Participant on the books of this Bank. Each Reserve Bank has issued an Appendix C to Circular No. 7 identical to this one.

#### 1.0 DEFINITIONS

In addition to the terms defined in the Circular, the terms defined in this Paragraph have the following meanings when used in this Appendix.

- (a) **Applicable Regulations** means the regulations of issuers of Book-Entry Securities listed in Appendix A to this Circular.
- (b) **Collateral Transaction** means the pledge of Book-Entry Securities by a Pledgor to a Pledgee; the release of Pledged Securities to a Pledgor; or the substitution of the same par value amount of new Pledged Securities for existing Pledged Securities that are released to the Pledgor.
- (c) **Pledged Security** means a Book-Entry Security that is held in a Restricted Securities Account.
- (d) **Pledgee** means the state or local government or unit thereof, to which Book-Entry Securities have been pledged.
- (e) **Pledgor** means the Participant that has pledged the Book-Entry Securities.

#### 2.0 GOVERNING LAW

- 2.1 The Bank provides custodial services in accordance with Paragraph 4.3.2(a)(ii) of the Circular and this Appendix. The Bank's rights and obligations in providing custodial services pursuant to this Appendix are governed solely by the Circular, this Appendix, and the Applicable Regulations.
- 2.2 Pledgor and Pledgee warrant that a pledge of Book-Entry Securities marked on the books of the Bank under the provisions of this Appendix is in accordance with applicable law. If any provision of any bond, security or pledge agreement between Pledgor and Pledgee, or any subsequent waiver, modification or amendment of such agreement, imposes any duties on this Bank that are inconsistent with the provisions of this Appendix, the provisions of this Appendix govern. Provisions of state law that are inconsistent with, or in addition to, the provisions of this Appendix are not binding on this Bank unless otherwise agreed in writing.
- 2.3 Under the Applicable Regulations, the security interest of a Pledgee is perfected by this Bank's marking the security interest on its books, and the security interest has priority over any other interest in the Pledged Securities, other than a security interest of the United States.

### **3.0 ESTABLISHMENT OF RESTRICTED SECURITIES ACCOUNT**

- 3.1 This Bank will establish a Restricted Securities Account for the benefit of a Pledgee once the Pledgee has agreed to the terms of this Appendix and has provided such other information as may be required by the Bank. Existing Pledgeses may be required to execute a new agreement with the Bank but, in the absence of such new agreement, are deemed to have agreed to the provisions of this Appendix by continuing to hold Pledged Securities with the Bank. Forms for this purpose are available from the Bank.
- 3.2 By initiating a Collateral Transaction, a Pledgor agrees to all the provisions of this Appendix, as amended from time to time.

### **4.0 COLLATERAL TRANSACTIONS**

- 4.1 A Collateral Transaction is initiated by the Pledgor and, except for the pledge of new Pledged Securities, requires the prior approval of the Pledgee or its authorized representative. Collateral Transaction requests and Pledgee authorizations are subject to verification procedures the Bank specifies from time to time.
- 4.2 If a Pledged Security is unacceptable as collateral to a Pledgee, the Pledged Security will not be released to the Pledgor without the authorization of the Pledgee. The Bank assumes no responsibility to determine if a Pledged Security is acceptable to the Pledgee.
- 4.3 A Pledgee may provide the Bank with written standing instructions to permit substitutions of like par value amounts of Pledged Securities without the consent of the Pledgee. A substitution transaction involving a lesser par value amount of Pledged Securities requires Pledgee authorization for the release of Pledged Securities. In the case of a substitution involving a pay-down Book-Entry Security, par value refers to the outstanding book value of the securities at the time of a substitution transaction.
- 4.4 The Bank issues a confirmation to the Pledgee and the Pledgor for each Collateral Transaction. The confirmation is conclusive evidence of the Collateral Transaction reflected therein.

### **5.0 INTEREST PAYMENTS AND OTHER PROCEEDS**

- 5.1 Pursuant to Paragraph 9.2 of the Circular, the Bank credits payments of interest on the Pledged Securities to the Pledgor until the Bank receives (i) a written certification from the Pledgee or its authorized representative that the Pledgor is in default under any underlying pledge or security agreement between the Pledgor and the Pledgee, and (ii) written instructions directing the Bank to hold the interest payments. The Bank holds the interest payments in a non-interest-bearing account until collected in accordance with Paragraph 6 of this Appendix.
- 5.2 The Bank holds proceeds of Pledged Securities (other than interest payments) in a non-interest-bearing account, pursuant to Paragraph 4.3.3 of the Circular, until:
  - (a) Pledged Securities are deposited in substitution for the proceeds or the proceeds are released in accordance with Paragraph 4 of this Appendix; or
  - (b) the proceeds are collected in accordance with Paragraph 6 of this Appendix.

## **6.0 COLLECTION OF PLEDGED SECURITIES AND PROCEEDS**

- 6.1 If the Pledgee or its authorized representative certifies in writing to the Bank that the Pledgor is in default under any underlying pledge or security agreement between the Pledgor and the Pledgee, and certifies that the Pledgee has satisfied any notice or other requirement to which the Pledgee is subject, the Pledgee may instruct the Bank in writing to transfer specific amounts and issues of Pledged Securities and, if applicable, specific amounts of interest payments or other proceeds of Pledged Securities not previously credited to the Pledgor or otherwise released, to designated accounts on the books of this Bank or another Reserve Bank.
- 6.2 Promptly after receiving such certifications and instructions, the Bank will make the transfer instructed by the Pledgee.
- 6.3 The Bank is not required to obtain the consent of the Pledgor for any such transfer and assumes no responsibility for determining the validity of a Pledgee's declaration of the Pledgor's default or of the underlying pledge or security agreement between the Pledgor and the Pledgee.

## **7.0 PROHIBITED ACTS**

- 7.1 Notwithstanding any other provision of this Appendix or the Circular to the contrary, the Bank is not required to perform any act directed or required by the Pledgee if the Bank is prohibited from performing the act by law or by court order.

## **8.0 LIMITATIONS ON BANK'S LIABILITY AND DUTIES**

- 8.1 The Bank is liable only for the actual direct loss sustained by a pledgee or pledgor proximately caused by the Reserve Bank's failure to exercise ordinary care or act in good faith in performing its duties under this Appendix. In no event shall the Reserve Bank be liable for consequential, indirect, incidental or special damages (including lost profits), however derived, and regardless of whether the Reserve Bank has been informed of the possibility thereof. Both the Pledgee and the Pledgor release and forever discharge the Bank from all other claims, demands, and liability of the Pledgee or the Pledgor, or both, in connection with the Bank's performance of its duties under this Appendix and indemnify the Bank for any claims of other parties, including costs of litigation and reasonable attorneys' fees, with respect to Pledged Securities held by the Bank.
- 8.2 In particular, but not exclusively, the Bank has no duty to:
  - (a) act as escrow agent or in any other capacity not expressly provided for in this Appendix;
  - (b) determine the validity of the pledge of securities by the Pledgor to the Pledgee, including whether any required bond, pledge, or security agreement has been executed;
  - (c) monitor the value of a Pledged Security, or the declining book value of a pay-down Pledged Security subsequent to its pledge, or ensure that the type, amount, or value of a Pledged Security is that which is required under state or local law;
  - (d) verify ownership, validity, or legality of the Pledged Securities;
  - (e) pay assessments as provided under state or local law;
  - (f) give notice of maturity, call, exchange offer, or the like, affecting the Pledged Securities;



(g) carry insurance against loss of the Pledged Securities; or

(h) inquire into the existence or continuance of the powers or authority of a public official who is the Pledgee or is acting for the Pledgee or the successors in office to or any person represented to the Bank as authorized to act on behalf of the Pledgee. However, the Bank may require a certificate from the proper authority showing that the public official, or any person represented to the Bank as authorized to act on behalf of the Pledgee, is and continues to be so authorized.

## **9.0 DISPUTES**

In the event of notice of a conflicting claim with respect to Pledged Securities, the Bank may hold the Pledged Securities, including interest and proceeds, pending settlement of the dispute either by agreement of the parties or by order of a court of competent jurisdiction.

## **10.0 TERMINATION OF AGREEMENT OR PLEDGE SECURITIES ACCOUNT**

10.1 The Bank or the Pledgee may terminate this Agreement and close any Restricted Securities Account established under this Appendix by giving not less than 30 calendar days advance written notice of termination to the other party and to the Pledgor.

10.2 The Bank may release Pledged Securities held by the Bank to the Pledgor at the end of the 30 day period. However, if, within the 30 day period, the Bank (a) receives written instructions from the Pledgor to otherwise dispose of the Pledged Securities and (b) the Pledgee's separate written approval thereof, the Bank will dispose of the Pledged Securities in accordance with these instructions.

10.3 If, by reason of a merger or otherwise, a Pledgor's Book-Entry Securities account is transferred to another Reserve Bank, the Pledged Securities held by this Bank will be transferred to the other Reserve Bank, with 30 calendar days prior notice to affected Pledgees. If Pledged Securities are transferred to this Bank pursuant to this provision, this Bank will hold the Pledged Securities pursuant to the terms of this Appendix and the existing Pledgee Agreement with the transferor Reserve Bank but may require a new Pledgee agreement.

## **11.0 FEES**

The Pledgor shall pay any fees for services provided under this Appendix, as announced by the Bank from time to time.

## **12.0 AMENDMENT**

The Reserve Banks reserve the right to amend this Appendix at any time without prior notice.