

Collateral Guide for Public Funds

BACKGROUND

The information contained in this guide is presented as a general overview of collateral program operations for federal agencies requiring collateral to secure public funds on deposit with a commercial financial institution (31 CFR Part 202). 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.frbervices.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).

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 202 - DEPOSITARIES AND FINANCIAL AGENTS OF THE FEDERAL GOVERNMENT

Purpose and Requirements

Government agencies are responsible for ensuring the security of public money. Public money includes, but is not limited to, revenue and funds of the United States and deposit funds subject to the control or regulation of the United States or any of its officers, agents, or employees. The procedures and authority for the agencies are issued under Title 31 of CFR Part 202 (Depositaries and Financial Agents of the Federal Government) and Part 380 (Collateral Acceptability and Valuation). These regulations govern the designation of financial institutions as depositaries and financial agents of the federal government, the deposit of public money, and the acceptability and valuation of collateral pledged to secure public funds. Based on the collateral requirements supplied by the government agencies, the Federal Reserve, acting as fiscal agent for the Treasury, will ensure that depositaries provide proper collateralization for public money, as defined above, that exceeds applicable insurance limits.

When an agency selects a financial institution as a depositary for public funds, the financial institution is required to complete, execute, and submit Fiscal Service forms 5902 and 5903. Agencies are encouraged to use banks participating in Treasury's Minority Bank Deposit Program. The Federal Reserve will be responsible for obtaining and maintaining the current form for all depositaries with public funds on deposit under this program.

Acceptable Collateral

The most current listing of acceptable collateral for the 202 program is available on the TreasuryDirect website at:

http://www.treasurydirect.gov/instit/statreg/collateral/collateral_acc31cfr202.pdf

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 202 program is available on the TreasuryDirect website at:

[http://www.treasurydirect.gov/instit/statreg/collateral/202%20Margins%20Table%20\(06.03.14\).pdf](http://www.treasurydirect.gov/instit/statreg/collateral/202%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, depositories 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

After a financial institution has been contacted by an authorized agency to hold public funds on deposit, the institution should contact the Federal Reserve to ensure that the agency's 202 program collateral account is established under its Fedwire securities account structure in order to pledge Fedwire securities. The depository must obtain the four-digit account number from the agency. It will be an alphanumeric character beginning with the letter V, followed by three numbers. If the agency does not know its number or does not have one, the depository should request that the agency contact the Federal Reserve to ensure the correct account is established.

Note: If the form is not on file with the Federal Reserve, the financial institution will be required to complete the legal form described in Section 3.1 of this document before the account can be opened.

Closing an Account

If a depository no longer holds public funds on deposit from a specific agency, it must contact the Federal Reserve to have its Fedwire 202 program collateral account closed. The Federal Reserve will verify with the agency that funds are no longer on deposit with the depository. Once the information is verified, the agency should send a written request to the Federal Reserve requesting that the specific 202 program collateral account be closed.

Note: The 202 program collateral account will not be closed until the Federal Reserve has verified with the agency that the collateral requirement has been reduced to zero and that no other monies will be deposited.

Amount To Be Collateralized (ATBC)

After all requirements have been met and the deposit relationship is established with the depository, the agency will inform the Federal Reserve of the amount of collateral value

required for the designated depository. This dollar amount is referred to as the Amount To Be Collateralized (ATBC). The ATBC can be increased or decreased by the agency via the TCMM application or by contacting TCMM Operations Support at 1-888-568-7343 (select menu option 2, and then select menu option 2). ATBC totals will not be changed without authorized direction to do so from the agency. If a depository has a question about the current ATBC for a specific agency, it should contact the agency directly.

Collateral Monitoring

Collateral held under a 202 program collateral account is monitored by the Federal Reserve using current collateral value, not par value. Depositories pledging collateral to a 202 program collateral account must ensure that the current collateral value is sufficient to cover the ATBC.¹ The Federal Reserve's TCMM application receives real-time updates for the current 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 202 program collateral account for the following reasons:

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

When a deficient account is identified during the Federal Reserve's collateral monitoring process, the Federal Reserve will inform the depository that additional collateral must be deposited as soon as possible.

Mergers and Acquisitions

If a depository (the non-survivor) participating in the 202 program is merging into another depository (the survivor), instructions concerning the disposition of collateral held under any 202 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.

¹ While the Federal Reserve monitors collateral value against the ATBC, the depository has the responsibility for ensuring that all uninsured deposits of the agency are fully collateralized.

If the legal and operational mergers occur on different dates, the non-survivor's account will have the recognized insurance coverage for its 202 account balances for the first six months after the legal merger date.

The survivor will be responsible for ensuring that sufficient collateral is pledged to the 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 the Federal Reserve for further instructions.

Prior to the operational merger date, the Federal Reserve will contact the agencies involved to verify ATBCs and to obtain authorization to move the collateral. On the operational merger date after receiving authorization from the respective agencies, the Federal Reserve will authorize the transfer of any securities held in the non-survivor's 202 program collateral account(s) to the survivor's appropriate 202 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 202 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.frbsservices.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 for Treasury Collateral Management and Monitoring

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