

payable on demand without prior notice. Calls for payment on the note will be by direction of the Secretary through the FRBs. On behalf of Treasury, the FRB shall charge the reserve account of the depository or the depository's designated correspondent on the day specified in the call for payment.

(d) *Interest.* A note shall bear interest at the TT&L rate. Such interest is payable by a charge to the Federal Reserve account of the depository or its designated correspondent in the manner prescribed in the procedural instructions.

(e) *Maximum balance—(1) Note option depositories.* A depository selecting the note option shall establish a maximum balance for its note by providing notice to that effect in writing to the FRB of the district. The maximum balance is the amount of funds for which a note option depository is willing to provide collateral in accordance with § 203.24(c)(1). The depository shall provide the advance notice required in the procedural instructions before reducing the established maximum balance unless it is a reduction resulting from a collateral re-evaluation as determined by the depository's FRB. That portion of any advance of credit or EFTPS tax payment, which, when posted at the FRB, would cause the note balance to exceed the maximum balance amount specified by the depository, will be withdrawn by the FRB that day.

(2) *Direct investment depositories.* A note option depository that participates in direct investment shall set a maximum balance for direct investment purposes which is higher than its peak balance normally generated by the depository's advances of credit and EFTPS tax payment inflow. The direct investment note option depository shall provide the advance notice required in the procedural instructions before reducing the established maximum balance.

(3) *Special direct investment depositories.* Special direct investments, while credited to the note balance, shall not be considered in setting the amount of the maximum balance or in determining the amounts to be withdrawn where a depository's maximum balance is exceeded.

§ 203.24 Collateral security requirements.

Financial institutions that process EFTPS tax payments, but are not TT&L depositories, have no collateral requirements under this part. Financial institutions that are note option depositories or remittance option depositories have collateral security requirements, as follows:

(a) *Note option—(1) FTD deposits and EFTPS tax payments.* A depository shall pledge collateral security in accordance with the requirements of paragraphs (c)(1), (d), and (e) of this section in an amount that is sufficient to cover the pre-established maximum balance for the note, and, if applicable, the closing balance in the TT&L account which exceeds recognized insurance coverage. Depositories shall pledge collateral for the full amount of the maximum balance at the time the maximum balance is established. If the depository maintains a TT&L account, the depository shall pledge collateral security before crediting deposits to the TT&L account.

(2) *Direct investments.* A note option depository that participates in direct investment is not required to pledge collateral continuously in the amount of the pre-established maximum balance. However, each note option depository participating in direct investment shall pledge, no later than the day the direct investment is placed, the additional collateral in accordance with paragraphs (c)(1), (d), and (e) of this section to cover the total note balance including those funds received through direct investment. If a direct investment depository has a history of frequent collateral deficiencies, it shall fully collateralize its maximum balance at all times.

(3) *Special direct investments.* Before special direct investments are credited to a depository's note balance, the note option depository shall pledge collateral security, in accordance with the requirements of paragraphs (c)(2) and (e) of this section, to cover 100 percent of the amount of the special direct investments to be received.

(b) *Remittance option.* Prior to crediting FTD deposits to the TT&L account, a remittance option depository

shall pledge collateral security in accordance with the requirements of paragraph (c)(1), (d), and (e) of this section in an amount which is sufficient to cover the balance in the TT&L account at the close of business each day, less recognized insurance coverage.

(c) *Deposits of securities.* (1) Collateral security required under paragraphs (a)(1), (2), and (b) of this section shall be deposited with the FRB of the district, or with a custodian or custodians within the United States designated by the FRB, under terms and conditions prescribed by the FRB.

(2)(i) Collateral security required under paragraph (a)(3) of this section shall be pledged under a written security agreement on a form provided by the FRB of the district. The collateral security pledged to satisfy the requirements of paragraph (a)(3) of this section may remain in the pledging depository's possession and the fact that it has been pledged shall be evidenced by advices of custody to be incorporated by reference in the written security agreement. The written security agreement and all advices of custody covering collateral security pledged under that agreement shall be provided by the depository to the FRB of the district. Collateral security pledged under the agreement shall not be substituted for or released without the advance approval of the FRB of the district, and any collateral security subject to the security agreement shall remain so subject until an approved substitution is made. No substitution or release shall be approved until an advice of custody containing the description required by the written security agreement is received by the FRB of the district.

(ii) Treasury's security interest in collateral security pledged by a depository in accordance with paragraph (c)(2)(i) of this section to secure special direct investments is perfected without Treasury taking possession of the collateral security for a period not to exceed 21 calendar days from the day of the depository's receipt of the special direct investment.

(d) *Acceptable securities.* Types and valuations of acceptable collateral security are addressed in 31 CFR part 380. For a current list of acceptable classes

of securities and instruments described in 31 CFR part 380 and their valuations, see the Bureau of the Public Debt's web site at www.publicdebt.treas.gov.

(e) *Assignment of securities.* A TT&L depository that pledges acceptable securities which are not negotiable without its endorsement or assignment may furnish, in lieu of placing its unqualified endorsement on each security, an appropriate resolution and irrevocable power of attorney authorizing the FRB to assign the securities. The resolution and power of attorney shall conform to such terms and conditions as the FRB shall prescribe.

(f) *Effecting payments of principal and interest on securities pledged as collateral—(1) General.* If the depository fails to pay, when due, the whole or any part of the funds received by it for credit to the TT&L account, and/or if applicable, its note balance; or otherwise violates or fails to perform any of the terms of this part, or fails to pay when due amounts owed to the United States or the United States Treasury; or if the depository is closed for business by regulatory action or by proper corporate action, or in the event that a receiver, conservator, liquidator or any other officer is appointed; then the Treasury, without notice or demand, may sell, or otherwise collect the proceeds of all or part of the collateral, including additions and substitutions; and apply the proceeds, to satisfy any claims of the United States against the depository. All principal and interest payments on any security pledged to protect the note balance (if applicable) and/or the TT&L account (if applicable), due as of the date of the insolvency or closure, or thereafter becoming due, shall be held separate and apart from any other assets and shall constitute a part of the pledged security available to satisfy any claim of the United States.

(2) *Payment procedures.* (i) Subject to the waiver in paragraph (f)(2)(iii) of this section, each depository (including, with respect to such depository, an assignee for the benefit of creditors, a trustee in bankruptcy, or a receiver in equity) shall immediately remit each payment of principal and/or interest received by it with respect to collateral pledged pursuant to this section to the FRB of the district, as fiscal agent of

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the United States, and in any event shall so remit no later than 10 days after receipt of such a payment.

(ii) Subject to the waiver in paragraph (f)(2)(iii) of this section, each obligor on a security pledged by a depository pursuant to this section, upon notification that the Treasury is entitled to any payment associated with that pledged security, shall make each payment of principal and/or interest due with respect to such security directly to the FRB of the district, as fiscal agent of the United States.

(iii) The requirements of paragraphs (f)(2)(i) and (ii) of this section are hereby waived for only so long as a pledging depository avoids both termination from the program under §203.7; and also, those circumstances identified in paragraph (f)(1) which may lead to the collection of the proceeds of collateral or the waiver is otherwise terminated by Treasury.

[63 FR 5650, Feb. 3, 1998, as amended at 65 FR 55429, Sept. 13, 2000]

PART 204 [RESERVED]

PART 205—RULES AND PROCEDURES FOR FUNDS TRANSFERS

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AUTHORITY: 5 U.S.C. 301; 31 U.S.C. 321, 3335, 6501, 6503.

SOURCE: 57 FR 60676, Dec. 21, 1992, unless otherwise noted.

§ 205.1 Purpose.

Subparts A and B of this part implement the Cash Management Improvement Act and prescribe rules and procedures for the transfer of funds between the Federal Government and the States for Federal grant and other programs. Subpart C of this part is reserved and, if issued, may implement other authorities and govern transactions outside the scope of subparts A and B.

§ 205.2 Scope of part.

(a) Subparts A and B apply to programs listed in the Catalog of Federal Domestic Assistance. Pursuant to chapter 61 of title 31, United States Code.

(b) This part does not generally apply to direct loan programs.

(c) This part does not apply to payments made to States acting as vendors on Federal contracts, which are subject to the Prompt Payment Act of 1982, as amended, 31 U.S.C. 3901 *et seq.*, Office of Management and Budget (OMB) Circular A-125 "Prompt Payment," and 48 CFR part 32.

(d) This part does not apply to the Tennessee Valley Authority (TVA) or programs administered by the TVA.

§ 205.3 Definitions.

For the purpose of this part:

Administrative cost grant means a grant exclusively for administrative