



# Federal Register

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**Wednesday,  
May 24, 2000**

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**Part VI**

**Federal Reserve  
System**

**Department of the  
Treasury**

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**Fiscal Service**

**Policy Statement on Payments System  
Risk: Modifications to Daylight Overdraft  
Posting Procedures; Treasury Tax and  
Loan Program Enhancements; Notices**

**FEDERAL RESERVE SYSTEM**

[Docket No. R-1068]

**Policy Statement on Payments System Risk: Modifications to Daylight Overdraft Posting Procedures****AGENCY:** Board of Governors of the Federal Reserve System.**ACTION:** Policy Statement.

**SUMMARY:** The Board has adopted changes to the procedures for measuring daylight overdrafts. Posting times for Treasury Investment Program transactions have been added to these procedures to implement program changes announced by Department of the Treasury in today's **Federal Register**.

**EFFECTIVE DATE:** July 10, 2000 for transitional posting procedures and November 2, 2000 for final posting procedures.

**FOR FURTHER INFORMATION CONTACT:** Myriam Payne, Manager (202/452-3219), Stacy Coleman, Financial Services Analyst (202/452-2934), or Donna DeCorleto, Project Leader (202/452-3956), Division of Reserve Bank Operations and Payment Systems; for the hearing impaired *only*: Telecommunications Device for the Deaf, Janice Simms (202/872-4984).

**SUPPLEMENTARY INFORMATION:****Background**

The Board's Policy Statement on Payments System Risk establishes maximum limits (net debit caps) and fees on daylight overdrafts in depository institutions' accounts at Federal Reserve Banks. The Federal Reserve measures depository institutions' intraday account balances according to a set of "posting rules" established by the Board. These rules comprise a schedule for the posting of debits and credits to institutions' Federal Reserve accounts for different types of payments.<sup>1</sup> The Board's objectives in designing the posting rules include minimizing intraday float, facilitating depository institutions' monitoring and control of their cash balances during the day, and reflecting the legal rights and obligations of parties to payments. The Board has established daylight overdraft posting times for the new Treasury Investment Program (TIP) transactions based on these objectives.

The Federal Reserve will implement TIP on July 10, 2000, to replace the Treasury Tax and Loan (TT&L) system.

<sup>1</sup> See "Federal Reserve Policy Statement on Payments System Risk," section I.A (57 FR 47093, October 14, 1992).

The Reserve Banks, as fiscal agents and depositories of the United States, act on behalf of the Department of the Treasury (Treasury) to collect Federal taxes and invest excess Treasury balances with depository institutions. The Reserve Banks use the TT&L system to collect and invest Federal tax proceeds and to monitor the collateral pledged by institutions.<sup>2</sup> TT&L is primarily an end-of-day batch processing system implemented in the mid-1980s to process paper-based tax payments.

In 1993, the North American Free Trade Agreement Implementation Act (NAFTA) required Treasury to begin an orderly conversion from its paper-based system to an electronic tax collection system to accelerate the availability of its funds. In 1996, Treasury introduced the Electronic Federal Tax Payment System (EFTPS) to offer taxpayers electronic payment alternatives, such as the Automated Clearing House (ACH) and Fedwire.<sup>3</sup> The Reserve Banks modified the TT&L automated application to accept and invest tax proceeds collected through EFTPS. The aging technology of the TT&L application, however, limited opportunities to automate tax collection further. As a result, the Reserve Banks worked with Treasury to design the TIP application to support Treasury's changing tax collection and investment requirements.

Treasury envisioned an all-electronic tax collection system when TIP was developed but later determined that a paper-based tax payment alternative should be available to smaller business taxpayers.<sup>4</sup> At Treasury's request, the Federal Reserve developed the Paper Tax System (PATAX) to accommodate paper-based tax payments. The Federal Reserve will implement the TIP and PATAX applications concurrently.

An important feature of the TIP application is its ability to receive and process data from interfacing applications in real time. Throughout

<sup>2</sup> 31 CFR part 203 "Payment of Federal Taxes and the Treasury Tax and Loan Program" requires that TT&L depositories pledge to Treasury sufficient collateral to protect the uninsured portion of Treasury tax proceeds and the full value of Treasury investments held at the depositories.

<sup>3</sup> For purposes of this notice, "Fedwire" refers to the electronic funds transfer system owned and operated by the Federal Reserve System. See 31 CFR part 203 for further detail regarding electronic tax payment alternatives.

<sup>4</sup> Treasury currently requires that business taxpayers with an annual tax liability of \$200,000 or more pay their income, withholding, and other federal taxes by electronic means no later than the tax due date. Other taxpayers are encouraged to use electronic means, but have the option of submitting their tax payment information using a paper Federal Tax Deposit (FTD) coupon. See 26 CFR parts 1, 20, 25, 31, and 40 regarding "Electronic Funds Transfers of Federal Deposits."

the day, TIP will receive and process payment information from EFTPS, the Federal Reserve Electronic Tax Application (FR-ETA), and PATAX, and collateral information from the National Book-Entry System (NBES) and the Definitive Safekeeping System (DSS). The Federal Reserve will adjust the total Treasury balances at depository institutions based on Treasury's cash needs and depository institutions' willingness and ability to collateralize Treasury investments. In addition, TIP will monitor the value of collateral pledged to protect government monies held at depository institutions for other Treasury purposes besides tax collections and investments.<sup>5</sup> The Federal Reserve will be able to reduce those balances at depository institutions if the value of collateral is insufficient to protect those monies.

**TIP-Related Daylight Overdraft Posting Rule Changes**

Unlike TT&L, TIP will process transactions throughout the day and depository institutions will be able to access information on the status of TIP transactions destined for their Federal Reserve accounts through their FedLine terminals.<sup>6</sup> Therefore, in accordance with the Board's objective to minimize intraday float, the Board believes the TIP transactions should post to depository institutions' accounts in real time throughout the day.

Currently, because TT&L is primarily an end-of-day batch processing system, the Reserve Banks post TT&L transactions resulting in debits to depository institutions' accounts after the close of Fedwire. TIP will process transactions throughout the day, however, allowing the Reserve Bank to post TIP-related transactions on a flow basis in order to match more closely the actual TIP processing times. In the near term this change could make controlling daylight overdrafts related to some TIP transactions more challenging for depository institutions. For example, with near real-time posting under TIP, a large debit transaction could post to a depository institution's account early in the day and create a considerable daylight overdraft. Under TT&L, the debit transaction would post after the close of Fedwire, providing the depository institution ample time to

<sup>5</sup> Government monies can be held at depository institutions for a variety of reasons. Initially, TIP will monitor collateral pledged pursuant to 31 CFR part 202 "Depositories and Financial Agents of the Government" and 31 CFR part 203.

<sup>6</sup> FedLine is the Federal Reserve's proprietary PC software that offers depository institutions access to Federal Reserve services such as accounting, ACH, book-entry, cash, check, statistical reporting, funds transfer, and Treasury services.

fund its account. As a result, depository institutions may find managing their daylight overdrafts more difficult until they become familiar with TIP's processing patterns.

The Board recognizes that depository institutions may need time to change the systems or procedures they use to fund their accounts and monitor their tax payment flows. For this reason, the Board will introduce the TIP-related posting rule changes for most transactions resulting in debits to depository institutions' accounts in two phases.<sup>7</sup> To allow sufficient time for depository institutions to adjust to the various operational changes associated with TIP, initially the Federal Reserve will post most transactions resulting in debits to depository institutions' accounts after the close of Fedwire. Approximately four months after the implementation of TIP, on November 2, 2000, the Federal Reserve will post all transactions resulting in debits to depository institutions' accounts on a flow basis as TIP processes them. The Board believes that this approximate four-month transition period, which covers a full quarterly business tax payment cycle, provides depository institutions with sufficient time to identify the effects of and adjust to the new debit timing patterns that TIP creates.

#### Debits to Depository Institutions<sup>8</sup>

##### *After-the-Close-of-Fedwire Posting*

Beginning July 10, 2000 the Federal Reserve will post the TIP transactions listed below, resulting in debits to depository institutions' Federal Reserve accounts, after the close of Fedwire. The Reserve Banks will provide depository institutions with information on their TIP transactions through FedLine, which will allow depository institutions to observe and become familiar with the actual TIP processing cycles. Beginning November 2, 2000, the Reserve Banks will post these transactions on an intraday basis to reflect more closely the actual TIP processing times. Unless stated otherwise in this notice, the Reserve Banks will begin posting TIP-related transactions at 8:30 a.m. ET and on an hourly basis, on the half-hour, thereafter.<sup>9</sup>

<sup>7</sup> The Reserve Banks will post small-dollar transactions, such as uninvested PATAX tax deposits and penalties for tax payments, on a flow basis as they are processed beginning July 10, 2000. The posting rules for these transactions will not change in the second phase.

<sup>8</sup> The Board has not modified the posting rules for existing TT&L transactions unless specifically referenced in this notice.

<sup>9</sup> While TIP begins processing transactions as early as 6 a.m. ET, the Federal Reserve will not

*Main Account System-Initiated Balance Limit Withdrawal.* This transaction withdraws from a depository institution's account any amount that exceeds its balance limit. A depository institution's balance limit is the amount of Treasury funds that it is willing to accept as investments and may be changed at any time.

*Main Account System-Initiated Collateral Deficiency Withdrawal.* This transaction withdraws from a depository institution's account any amount that is not protected by collateral.

*Main Account Treasury Withdrawal.* This transaction withdraws some or all of Treasury's invested balances from a depository institution's Federal Reserve account.<sup>10</sup> TIP will process the transactions on the date and time specified by Treasury. The Federal Reserve will post future-day withdrawals at 8:30 a.m. ET on the settlement day designated by Treasury, same-day withdrawals announced by 11:30 a.m. ET at 1:00 p.m. ET, and same-day withdrawals announced by 6:15 p.m. ET after the close of Fedwire.<sup>11</sup>

*31 CFR Part 202 Collateral Deficiency Withdrawal.* Under 31 CFR part 202 (formerly called Circular 176), Treasury permits authorized depository institutions to hold fully collateralized deposits of public monies for government agencies. Under TIP, Treasury has centralized the monitoring of the collateral pledged to protect 31 CFR part 202 deposits and requires that collateral be assessed at market value. At the discretion of the depositing government agency, this transaction will withdraw from the depository institution's account any amount not protected by collateral. TIP will identify deficiencies between 7:00 a.m. and 6:00 p.m. ET, and the Reserve Bank will work with the depository institutions and the depositing government agencies to resolve the deficiencies. If a deficiency is not corrected before the end of the day, the Federal Reserve may debit the depository institution's account for the uncollateralized amount.

begin posting transactions until 8:30 a.m. ET in order to match the initial posting of other non-wire transactions and to allow depository institutions time to manage or fund their accounts.

<sup>10</sup> The balances that Treasury invests with depository institutions are payable on demand without prior notice. Treasury may announce these balance withdrawals, however, hours or days in advance. See 31 CFR 203.23.

<sup>11</sup> On rare occasions, the Treasury may announce withdrawals in advance that are based on depository institutions' closing balances on the withdrawal date. The Federal Reserve will post these withdrawals after the close of Fedwire.

#### *Near Real-Time Posting*

Beginning July 10, 2000, the Federal Reserve will post the TIP transactions listed below, resulting in debits to depository institutions' account balances, on an intraday basis during the day as soon as TIP processes them. The Board does not believe depository institutions require a transitional period for these transactions' posting times given their relatively small dollar value.

*Uninvested PATAX Tax Deposit.* This transaction withdraws from depository institutions' accounts the proceeds of PATAX tax collections that will not be invested with those institutions. The Reserve Banks will post these transactions beginning at 8:30 a.m. ET and on an hourly basis, on the half-hour, thereafter.

*Penalty for Tax Payments.* Treasury will use this transaction to assess a penalty any time that a depository institution accepts a timely payment from a taxpayer, but submits the payment to the Treasury late. Every Thursday night, the Reserve Banks will identify and notify depository institutions of their Treasury-authorized penalties.<sup>12</sup> The Reserve Banks will calculate the penalty for each depository institution and post the debit to the depository institution's account at 8:30 a.m. ET on the following business day.

#### Credits to Depository Institutions

Beginning July 10, 2000, the Federal Reserve will post the TIP transactions listed below, resulting in credits to depository institutions' accounts, on an intraday basis during the day as soon as TIP processes them.

*Dynamic Investment.* The Dynamic Investment is a new transaction that will invest excess Treasury funds with depository institutions that want the funds and have sufficient collateral to protect the investment.<sup>13</sup> The Reserve Banks will post these transactions beginning at 12:30 p.m. ET and on an hourly basis, on the half-hour, thereafter.

*FR-ETA Value Fedwire Investment.* The FR-ETA Value Fedwire Investment is a new transaction that will return to depository institutions, as a Treasury investment, the tax proceeds that the institutions sent to Treasury through a FR-ETA Value Fedwire transaction (31 CFR 203.2). TIP will identify those FR-

<sup>12</sup> In the event that Thursday is a holiday, the Reserve Banks will identify and notify depository institutions with Treasury-authorized penalties on the following business day. Penalties will then be posted on the business day following notification.

<sup>13</sup> Depository institutions specify the times of day and the amount of funds they are willing to accept as investments. Funds are distributed pro-rata based on depository institutions' capacity levels.

ETA tax payments that were sent by Retainer or Investor institutions with unused capacity and will invest the funds with those Retainer or Investor institutions.<sup>14</sup> The Reserve Banks will post these transactions beginning at 9:30 a.m. ET and on an hourly basis, on the half-hour, thereafter.<sup>15</sup>

**Penalty Abatement.** The Penalty Abatement is a new transaction that Treasury will use to return money paid previously as penalties by a depository institution to Treasury. In the event that a depository institution provides evidence that the Treasury charged it incorrectly, Treasury may return the penalty money to the depository institution. The Reserve Banks will process and post Penalty Abatements on Thursdays at 6:30 p.m. ET.<sup>16</sup>

**Main Account Administrative Investment and SDI Administrative Investment.** These transactions are administrative or correcting entries that Reserve Banks will occasionally make to depository institutions' Main Accounts or Special Direct Investment Accounts.<sup>17</sup> For example, after two entities merge, the Reserve Banks would use one of the Main Account Administrative Investment transactions to move the non-survivor's TIP account balance to the survivor's account.<sup>18</sup> The Reserve Banks will post these transactions at 8:30 a.m. ET and on an hourly basis, on the half-hour, thereafter.

**31 CFR Part 202 Account Deposits.** The 31 CFR part 202 Account Deposit is a new transaction that will place public monies with depository institutions authorized by Treasury to accept these deposits, but only after TIP confirms that the depository institutions have pledged sufficient collateral to protect these deposits. Based on

<sup>14</sup> A Retainer institution will collect tax payments using FR-ETA, EFTPS, and/or PATAX, and will accept back in its Main Account, as Treasury investments, only the amount it collected. The Main Account replaces the TT&L account under TIP. An Investor institution will collect tax payments using ETA, EFTPS, and/or PATAX, accept those funds as a Treasury investment, and also accept other Treasury investments to its Main Account up to capacity.

<sup>15</sup> For example, a Retainer or Investor institution with sufficient collateral that sends an FR-ETA tax payment at 11:45 a.m. ET will receive an FR-ETA Value Fedwire Investment at 12:30 p.m. ET.

<sup>16</sup> In the event that Thursday is a holiday, TIP will process Treasury-authorized penalty abatements on the following business day.

<sup>17</sup> The Special Direct Investment Account is define in 31 CFR part 203.

<sup>18</sup> The TIP application receives notice of a merger the day the merger occurs and therefore cannot combine merged accounts after the close of Fedwire prior to the merger day. In addition, the TIP operations staff must determine whether the surviving entity will accept the non-surviving entity's account balance and has the capacity to do so.

Treasury's or the depositing agency's instruction, the Reserve Banks will post these transactions at 8:30 a.m. ET and on an hourly basis, on the half-hour, thereafter.

### Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. ch. 3506; 5 CFR 1320 Appendix A.1), the Board has reviewed the policy statement under the authority delegated to the Board by the Office of Management and Budget. No collections of information pursuant to the Paperwork Reduction Act are contained in the policy statement.

### Policy Statement on Payments System Risk

1. The "Federal Reserve Policy Statement on Payments System Risk" (57 FR 47093, October 14, 1992), section I.A., under the heading "Modified Procedures for Measuring Daylight Overdrafts" is amended, effective July 10, 2000, as follows with changes identified by *italics*:

#### I. Federal Reserve Policy

##### A. Daylight Overdraft Definition

\* \* \* \* \*

#### Modified Procedures for Measuring Daylight Overdrafts<sup>3</sup>

Opening Balance (Previous Day's Closing Balance)

Post at 8:30 a.m. Eastern Time:

- +/- Government and commercial ACH credit transactions
- + Treasury Electronic Federal Tax Payment System (EFTPS) investments from ACH credit transactions
- + Advance-notice Treasury investments
- + Treasury state and local government series (SLGs) interest and redemption payments
- + Treasury checks, postal money orders, local Federal Reserve Bank checks, and EZ-Clear savings bond redemptions in separately sorted deposits
- *Penalty Assessments for tax payments from the Treasury Investment Program (TIP)*<sup>4</sup>

Post at 8:30 a.m. Eastern Time and Hourly, on the Half-Hour, Thereafter:

- + *Main Account Administrative Investment from TIP*
- + *SDI (Special Direct Investment) or Administrative Investment from TIP*

<sup>3</sup> The posting changes do not affect the overdraft restrictions and overdraft-measurement provisions for nonbank banks established by the Competitive Equality Banking Act of 1987 and the Board's Regulation Y (12 CFR 225.52).

<sup>4</sup> The Reserve Banks will identify and notify depository institutions with Treasury-authorized penalties on Thursdays. In the event that Thursday is a holiday, the Reserve Banks will identify and notify depository institutions with Treasury-authorized penalties on the following business day. Penalties will then be posted on the business day following notification.

- + *31 CFR part 202 Account Deposits from TIP*
- *Uninvested PATAX Tax Deposits from TIP*

Post Throughout Business Day:

- +/- Fedwire funds transfers
- +/- Fedwire book-entry securities transfers
- +/- Net settlement entries<sup>5</sup>

Post by 9:15 a.m. Eastern Time:

- + U.S. Treasury and government agency book-entry interest and redemption payments
- + U.S. Treasury and government agency matured coupons and definitive securities received before the maturity date

Post Beginning at 9:15 a.m. Eastern Time:

- Original issues of Treasury securities<sup>6</sup>

Post at 9:30 a.m. Eastern Time and Hourly, on the Half-Hour, Thereafter:

- + *FR-ETA Value Fedwire Investments from TIP*

Post at 11:00 a.m. Eastern Time:

- +/- ACH debit transactions
- + EFTPS investments from ACH debit transactions

Post at 11:00 a.m. Eastern Time and Hourly Thereafter:

- +/- Commercial check transactions, including return items
- +/- Check correction amounting to \$1 million or more
- + Currency and coin deposits
- + Credit adjustments amounting to \$1 million or more

Post at 12:30 p.m. Eastern Time and Hourly, on the Half-Hour, Thereafter:

- + *Dynamic Investment from TIP*

Post by 1:00 p.m. Eastern Time:

- + Same-day Treasury investments

Post at 2:00 p.m. Eastern Time:

- + Processed manual letters of credit<sup>7</sup>

Post at 5:00 p.m. Eastern Time:

- + Treasury checks, postal money orders, and EZ-Clear savings bond redemptions in separately sorted deposits. These items must be presented by 4:00 p.m. eastern time.
- + Local Federal Reserve Bank checks. These items must be presented before 3:00 p.m. eastern time.
- + Processed manual letters of credit
- +/- Same-day ACH transactions. These transactions include ACH return items, check-truncation items, and flexible settlement items.

Post at 6:30 p.m. Eastern Time:<sup>8</sup>

<sup>5</sup> Settlement entries from the "settlement sheet" service will be posted on the next clock hour approximately one hour after settlement data are received by the Reserve Banks. The settlement sheet service will be discontinued by year-end 2001. Settlement entries from the enhanced settlement service will be posted on a flow basis as they are processed.

<sup>6</sup> Original issues of government agency securities are delivered as book-entry securities transfers and will be posted when the securities are delivered to the purchasing institutions.

<sup>7</sup> Letters-of-credit transactions are drawdowns of government grants.

<sup>8</sup> The Reserve Banks will process and post Treasury-authorized penalty abatements on Thursdays. In the event that Thursday is a holiday,

+ *Penalty Abatements from TIP*

Post After the Close of Fedwire Funds Transfer System:

- +/- All other non-Fedwire transactions. These transactions include the following: local Federal Reserve Bank checks presented after 3:00 p.m. eastern time, but before 3:00 p.m. local time; noncash collections; credits for U.S. Treasury and government agency definitive security interest and redemption payments if the coupons or securities are received on or after the maturity date; *Treasury Investment Program Main Account Balance Limit Withdrawals and Collateral Deficiency Withdrawals*; *Main Account Treasury Withdrawals*; <sup>9</sup> *31 CFR part 202 Deficiency Withdrawals*; subscriptions for SLGS; currency and coin shipments; small-dollar credit adjustments; all debit adjustments; and small-dollar check corrections. Discount-window loans and repayments are normally posted after the close of Fedwire as well; however, in unusual circumstances a discount window loan may be posted earlier in the day with repayment 24 hours later, or a loan may be repaid before it would otherwise become due.

Equals:

Closing balance

\* \* \* \* \*

2. Footnotes 7 through 29 are renumbered 10 through 32.

## I. Federal Reserve Policy

### A. Daylight Overdraft Definition

#### Policy Statement on Payments System Risk

3. The "Federal Reserve Policy Statement on Payments System Risk," (57 FR 47093, October 14, 1992) section I.A., under the heading "*Modified Procedures for Measuring Daylight Overdrafts*" is amended, effective November 2, 2000, as follows with changes identified by *italics*:

\* \* \* \* \*

#### Modified Procedures for Measuring Daylight Overdrafts<sup>3</sup>

Opening Balance (Previous Day's Closing Balance)

Post at 8:30 a.m. Eastern Time:

- +/- Government and commercial ACH credit transactions
- + Treasury Electronic Federal Tax Payment System (EFTPS) investments from ACH credit transactions
- + Advance-notice Treasury investments
- + Treasury state and local government series (SLGS) interest and redemption payments

the Reserve Banks will process and post Treasury-authorized penalty abatements on the following business day.

<sup>9</sup> On rare occasions, the Treasury may announce withdrawals in advance that are based on depository institutions' closing balances on the withdrawal date. The Federal Reserve will post these withdrawals after the close of Fedwire.

<sup>3</sup> The posting changes do not affect the overdraft restrictions and overdraft-measurement provisions for nonbank banks established by the Competitive Equality Banking Act of 1987 and the Board's Regulation Y (12 CFR 225.52).

- + Treasury checks, postal money orders, local Federal Reserve Bank checks, and EZ-Clear savings bond redemptions in separately sorted deposits
- Penalty Assessments for tax payments from the Treasury Investment Program (TIP)<sup>4</sup>

Post at 8:30 a.m. Eastern Time and Hourly, on the Half-Hour, Thereafter:

- + Main Account Administrative Investment from TIP
- + SDI (Special Direct Investment) or Administrative Investment from TIP
- + 31 CFR part 202 Account Deposits from TIP
- 31 CFR part 202 Deficiency Withdrawals from TIP
- Uninvested PATAX Tax Deposits from TIP
- *Main Account Balance Limit Withdrawals from TIP*
- *Collateral Deficiency Withdrawals from TIP*

Post at 8:30 a.m., 11:30 a.m., and 6:30 p.m. Eastern Time:

- *Main Account Treasury Withdrawals from TIP*<sup>5</sup>

Post Throughout Business Day:

- +/- Fedwire funds transfers
- +/- Fedwire book-entry securities transfers
- +/- Net settlement entries<sup>6</sup>

Post by 9:15 a.m. Eastern Time:

- + U.S. Treasury and government agency book-entry interest and redemption payments
- + U.S. Treasury and government agency matured coupons and definitive securities received before the maturity date

Post Beginning at 9:15 a.m. Eastern Time:

- Original issues of Treasury securities<sup>7</sup>

Post at 9:30 a.m. Eastern Time and Hourly, on the Half-Hour, Thereafter:

- + FR-ETA Value Fedwire Investments from TIP

Post at 11 a.m. Eastern Time:

- +/- ACH debit transactions
- + EFTPS investments from ACH debit transactions

Post at 11:00 a.m. Eastern Time and Hourly

<sup>4</sup> The Reserve Banks will identify and notify depository institutions with Treasury-authorized penalties on Thursdays. In the event that Thursday is a holiday, the Reserve Banks will identify and notify depository institutions with Treasury-authorized penalties on the following business day. Penalties will then be posted on the business day following notification.

<sup>5</sup> On rare occasions, the Treasury may announce withdrawals in advance that are based on depository institutions' closing balances on the withdrawal date. The Federal Reserve will post these withdrawals after the close of Fedwire.

<sup>6</sup> Settlement entries from the "settlement sheet" service will be posted on the next clock hour approximately one hour after settlement data are received by the Reserve Banks. The settlement sheet service will be discontinued by year-end 2001. Settlement entries from the enhanced settlement service will be posted on a flow basis as they are processed.

<sup>7</sup> Original issues of government agency securities are delivered as book-entry securities transfers and will be posted when the securities are delivered to the purchasing institutions.

Thereafter:

- +/- Commercial check transactions, including return items
  - +/- Check correction amounting to \$1 million or more
  - + Currency and coin deposits
  - + Credit adjustments amounting to \$1 million or more
- Post at 12:30 p.m. Eastern Time and Hourly, on the Half-Hour, Thereafter:
- + Dynamic Investment from TIP
- Post by 1:00 p.m. Eastern Time:
- + Same-day Treasury investments
- Post at 2:00 p.m. Eastern Time:
- + Processed manual letters of credit<sup>8</sup>
- Post at 5:00 p.m. Eastern Time:
- + Treasury checks, postal money orders, and EZ-Clear savings bond redemptions in separately sorted deposits. These items must be presented by 4:00 p.m. eastern time.
  - + Local Federal Reserve Bank checks. These items must be presented before 3:00 p.m. eastern time.
  - + Processed manual letters of credit
  - +/- Same-day ACH transactions. These transactions include ACH return items, check-truncation items, and flexible settlement items.

Post at 6:30 p.m. Eastern Time:<sup>9</sup>

- + Penalty Abatements from TIP

Post After the Close of Fedwire Funds Transfer System:

- +/- All other non-Fedwire transactions. These transactions include the following: local Federal Reserve Bank checks presented after 3:00 p.m. eastern time but before 3:00 p.m. local time; noncash collection; credits for U.S. Treasury and government agency definitive security interest and redemption payments if the coupons or securities are received on or after the maturity date; subscriptions for SLGS; currency and coin shipments; small-dollar credit adjustments; all debit adjustments; and small-dollar check collections. Discount-window loans and repayments are normally posted after the close of Fedwire as well; however, in unusual circumstances a discount window loan may be posted earlier in the day with repayment 24 hours later, or a loan may be repaid before it would otherwise become due.

Equals:

Closing balance

\* \* \* \* \*

4. Footnotes 7 through 29 are renumbered 10 through 32.

By order of the Board of Governors of the Federal Reserve System, May 18, 2000.

**Jennifer J. Johnson,**  
*Secretary of the Board.*

[FR Doc. 00-13016 Filed 5-23-00; 8:45 am]

**BILLING CODE 6210-01-P**

<sup>8</sup> Letters-of-credit transactions are drawdowns of government grants.

<sup>9</sup> The Reserve Banks will process and post Treasury-authorized penalty abatements on Thursdays. In the event that Thursday is a holiday, the Reserve Banks will process and post Treasury-authorized penalty abatements on the following business day.

**DEPARTMENT OF THE TREASURY****Fiscal Service****Treasury Tax and Loan Program Enhancements**

**AGENCY:** Financial Management Service, Fiscal Service, Department of the Treasury.

**ACTION:** Notice.

**SUMMARY:** This announces new applications to be available in the Treasury Tax and Loan program.

**DATES:** The new applications are effective July 10, 2000.

**FOR FURTHER INFORMATION CONTACT:** Walt Henderson, Senior Financial Program Specialist on (202) 874-6705 or walt.henderson@fms.treas.gov; Mary Bailey, Financial Program Specialist, at (202) 874-6749 or mary.bailey@fms.treas.gov; Adam Martin, Financial Program Specialist, at (202) 874-6881 or adam.martin@fms.treas.gov; Cynthia L. Johnson, Director, Cash Management Policy and Planning Division, at (202) 874-6590 or cindy.johnson@fms.treas.gov; or Ellen Neubauer, Senior Attorney, at (202) 874-6680 or ellen.neubauer@fms.treas.gov.

**SUPPLEMENTARY INFORMATION:****A. Background**

The Department of the Treasury (Treasury) and the Board of Governors of the Federal Reserve System (Federal Reserve) are enhancing the Treasury Tax and Loan (TT&L) program by implementing two new applications. The current TT&L program encompasses two separate components—a depository component through which Treasury collects Federal tax deposits and payments from business taxpayers for

employee withholding and other types of taxes, and an investment component through which Treasury invests short-term operating balances not needed for immediate cash outlays. More than 10,500 commercial financial institutions participate in the TT&L depository component, collecting and/or reporting almost \$1.4 trillion in Fiscal Year 1999. Additionally, more than 1,500 of the TT&L depositories borrow excess short-term Treasury operating funds by participating in the TT&L investment component.

**B. Summary of the New TT&L Applications**

On July 10, 2000, Treasury and the Federal Reserve will introduce two new TT&L applications—the Treasury Investment Program (TIP) and the Paper Tax System (PATAX)—which will enhance the current TT&L program. The TIP and PATAX systems will benefit financial institutions by providing the following features:

- Flexibility in investment options by offering dynamic investing through the new TIP application. Dynamic investing allows qualified financial institutions to receive excess Treasury funds throughout the day, provided the institution has the capacity to accept the funds.
- Near real time processing throughout the day. Tax payments settled by TIP (paper tax payments and same day Electronic Federal Tax Payment System (EFTPS) payments) are credited to an institution's accounts throughout the day rather than at the end of the day. A more accurate Treasury balance leads to greater investment opportunities for financial institutions. Financial institutions also benefit from near real time account balance information because

they can better manage their cash position.

- Electronic delivery of statements and expanded hours for same day electronic tax payments and for processing paper tax payments (5:00 p.m. Eastern Time cut-off).
- Improved collateral monitoring. TIP will receive hourly collateral updates to help prevent deficiencies. These improvements ensure that Treasury's funds are always fully collateralized.

The Federal Reserve conducted training sessions for select financial institutions on the new TT&L applications across the U.S. during February, March, and April of this year.

**Additional Information**

In response to the implementation of these new applications, the Federal Reserve is publishing a new policy statement in this separate part pertaining to daylight overdrafts. Prior to July 10, 2000, Treasury's Financial Management Service will update the Treasury Financial Manual (TFM) chapters pertaining to TT&L and collateral. TFM chapters are available at [www.fms.treas.gov/tfm/index.html](http://www.fms.treas.gov/tfm/index.html).

For more information on the new TT&L applications, please visit [www.frb-services.org](http://www.frb-services.org). Financial institutions may also visit [www.fms.treas.gov/regs.html](http://www.fms.treas.gov/regs.html) for regulations and guidance pertaining to TT&L, EFTPS, and collateral. Financial institutions with questions on the new TT&L applications should contact the TT&L National Customer Service Area on 1-800-568-7343.

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