

**MEMO# 5052**

August 11, 1993

# **TREASURY LETTER ON ALLOCATION OF SECURITIES FOR HOLD-IN-CUSTODY REPURCHASE AGREEMENTS**

August 11, 1993 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 7-93 RE: TREASURY LETTER ON ALLOCATION OF SECURITIES FOR HOLD-IN-CUSTODY REPURCHASE AGREEMENTS

The Government Securities Regulations Staff of the Department of the Treasury recently issued interpretive guidance on the timing of the allocation of government securities being used as collateral in hold-in-custody repurchase agreements. A copy of the letter is attached. The Staff's letter describes the general requirements under the Government Securities Act regulations for a financial institution that holds as custodian for the account of a customer government securities that are the subject of a repurchase agreement. The letter states that such securities must be segregated from the assets of the depository institution and kept free of any lien, charge or claim of a third party. In addition, the institution must maintain records separate and distinct from other records of the depository institution. These records must provide a system for identifying each customer and each government security (or the amount of each issue of a government security issued in book- entry form) held for the customer, and must describe the customer's interest in the government security. With respect to the allocation of securities to customer accounts for hold- in-custody repos, the letter states that a financial institution must complete the securities allocation process for hold-in-custody repos prior to opening the next business day. In addition, the records of a financial institution must identify and list the specific securities that are allocated to each customer in authorized, transferable denominations. The letter states that it was being sent to the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision as guidance. Amy B.R. Lancellotta Associate Counsel Attachment