

MEMO# 7839

May 7, 1996

INSTITUTE LETTER ON PROPOSED TREASURY RULES GOVERNING SECURITIES HELD IN BOOK-ENTRY FORM

May 7, 1996 TO: SEC RULES COMMITTEE No. 32-96 RE: INSTITUTE LETTER ON PROPOSED
TREASURY RULES GOVERNING SECURITIES HELD IN BOOK-ENTRY FORM

The Treasury Department has proposed rules that will govern Treasury bonds, notes and bills held in the commercial book-entry system. This is a reproposal of rules for the Treasury/Reserve Automated Debt Entry System ("TRADES"), which was first proposed in 1986 but has not yet been adopted because of a number of issues that arose in connection with the project. In 1994, Article 8 of the Uniform Commercial Code was revised in a manner that Treasury concluded adequately resolved those issues. Accordingly, the proposed rules rely significantly on Revised Article 8. The Institute has submitted a comment letter on the proposed rules. Attached is a copy of the proposed rules and the Institutes letter. The Institutes letter expresses support for the proposed rules, particularly the provisions dealing with the applicable law governing parties rights and obligations with respect to marketable Treasury book-entry securities maintained in TRADES. The proposal would specify that with respect to rights and claims other than those against the United States, Federal Reserve Banks and other specified parties, state law will govern. Under the proposal, if the state having jurisdiction has not adopted Article 8, as revised, it will be deemed to have done so for these purposes. The Institute's letter requests clarification and guidance with respect to Treasurys position, as set forth in the Section-by-Section Analysis, that state law that is "substantially identical" to but slightly different from the official text of Article 8 should be given effect. The letter notes that there is potential confusion regarding the use of this standard because it is not explicitly included or referenced in the text of the proposed rules. In addition, it is unclear how and when a states law would be deemed to meet the "substantially identical" standard. The letter recommends that Government-sponsored enterprises that have separate book-entry rules adopt new rules that will be identical to, and that will become effective at the same time as, Treasurys proposed rules. Amy B.R. Lancellotta Associate Counsel Attachments

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