

**Federal Reserve Banks
Operating Circular No. 9**

**TREASURY INVESTMENTS AND
COLLATERAL SECURING PUBLIC FUNDS AND
FINANCIAL INTERESTS OF THE GOVERNMENT**

Effective July 25, 2013

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1.0 SCOPE

This Operating Circular sets forth the terms under which each Federal Reserve Bank, as fiscal agent of the United States, administers aspects of investments of the Department of the Treasury and monitors collateral (i) pledged to a Federal Government department, agency, or instrumentality in lieu of furnishing a surety bond; or, (ii) pledged to secure public deposits and investments of Government funds. Each Reserve Bank has issued an operating circular identical to this Operating Circular.

This Operating Circular does not apply to the payment or collection of Federal taxes.

2.0 GOVERNING LAW AND REGULATIONS

This Operating Circular is issued pursuant to 12 U.S.C. §391. Treasury is authorized to invest its operating cash under 31 U.S.C. §323. Investments with financial institutions are governed by 31 CFR Part 203 *Payment of Federal Taxes and the Treasury Tax and Loan Program* (“TT&L Program”). The designation of Depositories and Financial Agents of the Government and their authorization to accept deposits of public money are governed by 31 CFR Part 202 *Depositories and Financial Agents of the Federal Government*. Treasury also is authorized under 31 U.S.C. §§9301 and 9303 to designate classes of eligible obligations that may be pledged by an Obligor to a Federal program agency in lieu of furnishing a surety bond. Treasury regulations implementing its authority under 31 U.S.C. §§9301 and 9303 include 31 CFR Part 225 *Acceptance of Bonds Secured by Government Obligations in Lieu of Bonds with Sureties*. The types and valuation of acceptable Collateral that may be pledged to secure financial interests of the Government are also governed by 31 CFR Part 380 *Collateral Acceptability and Valuation*. The *Treasury Financial Manual* (“TFM”) supplements these regulations, and Treasury may from time to time provide additional guidance.

3.0 DEFINITIONS

For purposes of this Operating Circular, capitalized terms have the meanings defined herein. Capitalized terms used in this Operating Circular but not defined herein are defined in Federal Reserve Bank Operating Circular 1, *Account Relationships* (“Operating Circular 1”); Federal Reserve Bank Operating Circular 10, *Lending* (“Operating Circular 10”); 31 CFR Parts 202, 203, 225, and 380; and the TFM.

- 3.1 Administrative Reserve Bank (ARB)** is the Reserve Bank designated as such with respect to a financial institution under Operating Circular 1.
- 3.2 Adverse Claim** is any assertion of a property right that would adversely affect the right of the Pledgee to the Collateral, including but not limited to any claim, lien, security interest, encumbrance, preference, priority arrangement, or restriction on the transfer or pledge of Collateral.
- 3.3 BIC Collateral** is Collateral held in a BIC Arrangement under the 31 CFR Part 203 investment program.
- 3.4 Borrower-in-Custody Arrangement or BIC Arrangement** is an arrangement approved by the Pledgor's ARB pursuant to which the Pledgor may maintain custody of Collateral pledged under the 31 CFR Part 203 investment program.
- 3.5 Capacity** is, with respect to a particular Investor, the difference between (i) the Investor's balance limit for a specific investment type or the value of the associated Collateral, whichever is lower, and (ii) the Investor's account balance for the specific investment type.
- 3.6 Collateral** means all of the Pledgor's rights, title, and interests in property (wherever located, now owned or hereafter acquired) of a type deemed acceptable by Treasury under 31 CFR Part 380 and Treasury's procedural guidance referenced in Part 380, as amended from time to time, that is pledged to secure public funds and financial interests of the Government under 31 CFR Parts 202, 203 or 225. Collateral includes, without limitation, (i) all documents, books, and records, including programs, tapes, and related electronic data processing software, evidencing or relating to any or all of the foregoing; and, (ii) to the extent not otherwise included, all proceeds and products of any and all of the foregoing and all supporting obligations given by any person with respect to any of the foregoing, including but not limited to interest, dividends, insurance, rents and refunds.
- 3.7 Collateral Schedule**, if required to be provided, means the written, electronic or other statement(s) listing Collateral in effect at any time. Each Collateral Schedule shall be in the form, and shall identify the items of Collateral with the specificity, required by the Pledgor's ARB. The removal of an item from a Collateral Schedule will not be effective and will not affect the Pledgee's security

interest in the item unless such removal is made in accordance with the requirements set forth in this Operating Circular.

- 3.8 Covered Programs** refer to, for purposes of this Operating Circular, the programs established by the Treasury under 31 CFR Parts 202, 203 and 225, and includes all related regulations and guidance applicable to such programs.
- 3.9 Direct Investment** is an investment placed by Treasury with an Investor for an indeterminate period. The term “Direct Investment” includes Special Direct Investments.
- 3.10 Event of Default** means, in respect of any Investor, Pledgor, or Obligor, any of the following:
- (i) the failure to perform or observe by any Investor, Pledgor, or Obligor any obligations under this Operating Circular or any applicable Covered Program(s) or any other document or agreement delivered or executed in connection with this Operating Circular or any applicable Covered Program(s);
 - (ii) the inaccuracy in any material respect of any representation or warranty on the date made or deemed to have been made by any Investor, Pledgor, or Obligor under or in connection with any document or agreement delivered or executed in connection with this Operating Circular or any applicable Covered Program(s);
 - (iii) the insolvency of any Investor, Pledgor, or Obligor;
 - (iv) this Operating Circular or any document or agreement delivered or executed by an Investor, Pledgor, or Obligor in connection with this Operating Circular or any applicable Covered Program(s) ceases, for any reason, to be in full force and effect with respect to such Investor, Pledgor or Obligor, or any person so asserts, or any security interest or lien created thereunder ceases to be enforceable or have the same effect and priority purported to be created thereby; or
 - (v) the creation of an encumbrance upon any item of Collateral, or the placement of a levy on, the judicial seizure of, or an attachment upon any item of Collateral.

- 3.11 Government** is the United States government, including its departments, agencies, and instrumentalities. For purposes of Collateral pledged under a 31 CFR Part 225 Covered Program(s), the term “Government” has the same meaning as the term “Agency” in 31 CFR Part 225.
- 3.12 Investor** is a financial institution that has been designated as a participant in a Treasury investment pursuant to 31 U.S.C. §323, 31 CFR Part 203, and section 4 of this Operating Circular.
- 3.13 Master Account** is a Master Account as defined in Operating Circular 1. If a financial institution has designated a correspondent in accordance with Operating Circular 1 to settle debits and credits in connection with this Operating Circular, references to a Master Account mean the Master Account of that correspondent.
- 3.14 Obligor** means an obligor as defined in 31 CFR Part 225, including a financial institution acting as agent or subagent of an Obligor as provided in 31 CFR Part 225.
- 3.15 Pledgee** is the Government department, agency, or instrumentality to which Collateral has been pledged (i) in lieu of furnishing a surety bond, (ii) to secure deposits of public money, or (iii) to secure a Treasury investment.
- 3.16 Pledgor** is (i) a financial institution that has pledged Collateral under 31 CFR Part 202 or 203; or, (ii) an Obligor as defined in 31 CFR Part 225, including a financial institution acting as agent or subagent of an Obligor as provided in 31 CFR Part 225 .
- 3.17 Reserve Bank** is a Federal Reserve Bank.
- 3.18 Special Direct Investment (SDI)** is a Direct Investment placed by Treasury with an Investor for a period not to exceed 20 calendar days.
- 3.19 Special Direct Investment (SDI) Account Balance** is the current dollar amount of an Investor’s participation in a Special Direct Investment.
- 3.20 Term Investment or Term Investment Option (TIO)** is an investment placed by Treasury with an Investor for a specified period not to exceed 90 calendar days.

- 3.21 Term Investment Option (TIO) Account** is the informational record of each Term Investment that has been placed with a Term Participant, returned by that Term Participant, or withdrawn by Treasury. The TIO Account includes a record of amounts assessed pursuant to Treasury instructions for accrued interest, and if applicable, late charges and penalties.
- 3.22 Term Investment Option (TIO) Account Balance** is the informational record of the current dollar amount of all funds that have been placed with a Term Participant under a Term Investment Option.
- 3.23 Term Participant** is an Investor that accepts Term Investments in accordance with section 4.3.3 of this Operating Circular.
- 3.24 Treasury** is the United States Department of the Treasury.
- 3.25 Treasury Financial Manual (TFM)** is Treasury's official publication for financial accounting and reporting of receipts and disbursements of the Government.
- 3.26 Treasury Support Center (TSC)** is a Reserve Bank that, on behalf of Treasury, manages an Investor's participation in Treasury investment programs and/or manages Collateral pledged to secure public deposits or financial interests of the Government under Covered Programs.
- 3.27 Treasury Tax & Loan (TT&L) Account** is the informational record of each Direct Investment that has been placed with an Investor, returned by that Investor, or withdrawn by Treasury. The TT&L Account includes a record of amounts assessed pursuant to Treasury instructions for accrued interest, and, if applicable, late charges and/or penalties, with respect to Treasury investments under 31 U.S.C. §323 and 31 CFR Part 203.
- 3.28 Treasury Tax & Loan (TT&L) Account Balance** is the informational record of the current dollar amount of all funds that have been placed with an Investor under the Direct Investment program.

4.0 TREASURY INVESTMENTS (31 CFR Part 203)

4.1 APPLICATION FOR DESIGNATION AS AN INVESTOR

In order to qualify as an Investor, a financial institution must contact the TSC to obtain an application, investment agreement, and other related documents. The financial institution seeking Investor designation must submit to the TSC all documentation required by Treasury.

By submitting an application for designation as an Investor, a financial institution represents that it meets the requirements set forth in 31 CFR Part 203.

4.2 NOTICE OF DESIGNATION, CANCELLATION OF DESIGNATION, AND DISQUALIFICATION OF AN INVESTOR

4.2.1 Notice of Designation as an Investor

The TSC approves the designation of a financial institution as an Investor. An Investor shall promptly notify the TSC if the Investor enters into an acquisition or merger agreement that will result in the Investor being acquired by or merged into another financial institution.

4.2.2 Change of Option

An Investor may change the options under which it participates in Treasury investments by submitting an Election of Option form to the TSC. A change in options may be effective no earlier than one business day after receipt of the Election of Option form by the TSC. The form may be obtained from the TSC.

4.2.3 Cancellation of Designation as an Investor

A financial institution's designation as an Investor may be canceled at any time by the TSC. An Investor may cancel its status as such by sending written notice to the TSC. The Investor's request is effective within one business day after receipt of the notice by the TSC, at which time the financial institution is no longer qualified to accept new Treasury investments. Upon cancellation of a financial institution's Investor designation, a) the TSC will withdraw all outstanding Direct Investments, and b) outstanding Term Investments

will continue until maturity, pursuant to the terms of the Term Investment Agreement, unless the financial institution returns the Term Investment early and pays the related penalty for early termination.

4.2.4 Disqualification of an Investor

Failure of an Investor to comply with this Operating Circular, 31 CFR Parts 203 and 380, the TFM, or other requirements applicable to Treasury investments and pledges of Collateral to secure Treasury investments, may result in the termination of Treasury investment agreements between the Investor and Treasury and, therefore, the cancellation of the Investor's designation as an Investor pursuant to 31 CFR Part 203.

4.3 INVESTMENTS

4.3.1 GENERAL

Treasury regulations in 31 CFR Part 203 provide for Treasury investments that may be either Direct Investments or Term Investments. Each Direct Investment, including accrued interest and any applicable late charges and penalties, is payable to Treasury, in whole or in part, on demand by the TSC without prior notice. Each Term Investment is payable pursuant to the terms of the Term Investment agreement between the Term Participant and Treasury. All Direct and Term Investments must be secured by Collateral. An Investor must have a Master Account or must identify a correspondent that has a Master Account to settle on the Investor's behalf in accordance with section 6 of this Operating Circular.

4.3.2 DIRECT INVESTMENTS

4.3.2.1 Single TT&L Account

Except as provided in section 4.3.2.2 hereof, an Investor may have only one TT&L Account, which functions as the informational record of an Investor's Direct Investments, including a related SDI Account Balance, if any.

4.3.2.2 TT&L Accounts Following Merger or Acquisition

An Investor that assumes another Investor's Direct Investment, whether by merger, acquisition, or otherwise, may maintain the other Investor's TT&L Account as a temporary secondary TT&L Account for not more than twelve months after the effective date of the transaction that resulted in the assumption of the Direct Investment.

If the financial institution was not previously designated as an Investor on or before the effective date of the transaction, the TSC will withdraw all outstanding Direct Investments that had been placed with the other Investor no later than 4:00 p.m. ET on the effective date of the transaction.

4.3.2.3 Balance Limit

An Investor that has qualified to receive Direct Investments must, by written notice to the TSC pursuant to the TSC's procedures, establish a maximum TT&L Account Balance limit. An Investor's maximum balance limit must not be less than \$125,000 for Direct Investments. An Investor may change its maximum balance limit occasionally by written notice to the TSC, but is subject to penalties if it too frequently reduces its maximum balance limit.

4.3.2.4 Pledging Collateral

Before the amount of a Direct Investment is credited to an Investor's Master Account, an Investor must pledge acceptable Collateral sufficient to secure that Direct Investment, as well as all the Investor's other Direct Investments. An Investor is not required to pledge Collateral with a value equal to the pre-established maximum balance limit.

If an Investor has frequent Collateral deficiencies, it may be required to reduce its level of participation in Treasury investments and may be subject to penalties for Collateral deficiencies, which may be collected in accordance with section 6 of this Operating Circular.

4.3.2.5 Placement of Investments

The TSC distributes Direct Investments based on an Investor's Capacity and according to Treasury's instructions. On Treasury's behalf, the TSC may contact an Investor to discuss the amount of a Direct Investment to be placed with that Investor.

4.3.2.6 Notification of Placement and Receipt.

The TSC will provide notice to Investors when Direct Investments are placed. The TSC will increase an Investor's TT&L Account Balance in the amount of any funds invested with an Investor and will cause the Investor's Master Account to be credited in accordance with section 6 of this Operating Circular.

4.3.2.6.1 One-Day Prior Notice of Direct Investment

Each Investor electing to participate in the one-day prior notice procedure will receive notice from the TSC one business day before the funds Treasury has determined to place with the Investor are credited to the Investor's Master Account in accordance with section 6 of this Operating Circular.

4.3.2.6.2 Same-Day Notice of Direct Investment

Each Investor electing to participate in the same-day notice procedure will receive notice from the TSC on the same business day the funds Treasury has determined to place with the Investor are credited to the Investor's Master Account in accordance with section 6 of this Operating Circular.

4.3.2.7 Interest Accrual and Call Procedures for Direct Investments

Interest at the rate set forth in the TSC's notification to the Investor described in section 4.3.2.6 hereof begins accruing to Treasury on the business day that the investment funds are credited to the Investor's Master Account in accordance with section 6 of this Operating Circular. On the business day that Treasury calls a Direct Investment, the Investor's Master Account will be debited for the amount of the withdrawal (including any accrued interest and, if applicable, late fees and penalties) in accordance with section 6 of this Operating Circular. The TT&L Account Balance will be reduced accordingly.

4.3.2.8 Special Direct Investments (SDI)

4.3.2.8.1 Qualification

An Investor shall not receive a Special Direct Investment until the Investor's ARB has confirmed to the TSC that the Investor has satisfied all applicable BIC Arrangement standards and has pledged acceptable Collateral sufficient to secure the SDI.

4.3.2.8.2 BIC Collateral Securing SDIs

When an Investor proposes to hold Collateral to secure a Special Direct Investment in a BIC Arrangement, the Investor must pledge a minimum of \$2.5 million in acceptable Collateral. The TSC may at any time request that the ARB take possession of BIC Collateral pledged to secure SDIs and hold it in custody for the benefit of Treasury.

4.3.2.8.3 Withdrawal of SDIs

In accordance with section 6 of this Operating Circular, the TSC or the Investor's ARB may withdraw SDIs at any time, but in any event will withdraw SDIs not later than 20 calendar days after the business day funds were credited to the Investor's Master Account in accordance with section 6 of this Operating Circular.

4.3.3 TERM INVESTMENTS

4.3.3.1 Single TIO Account

An Investor may have only one TIO Account.

4.3.3.2 Balance Limit

A Term Participant must, by written notice to the TSC pursuant to the TSC's procedures, establish a maximum TIO Account Balance limit of at least \$10 million for Term Investments.

4.3.3.3 Pledging Collateral

Before the amount of a Term Investment is credited to a Term Participant's Master Account in accordance with section 6 of this Operating Circular, a Term Participant must pledge acceptable Collateral sufficient to secure each Term Investment, including any existing TIO Account Balances. To meet this requirement, a Term Participant temporarily may rely on Collateral pledged by it to secure a Direct Investment, if any, to the extent such Collateral is acceptable and not needed to secure outstanding Direct Investments; however, it must either add Collateral to secure the Term Investment or move the excess Direct Investment Collateral to secure the Term Investment no later than the close of business of the business day following placement of the Term Investment.

4.3.3.4 Auction Process and Placement of Investments

The details of bidding for Term Investments, such as the maximum and minimum bids and awards, will be as stated in the TFM, auction announcements, or other Treasury guidance. Term Investments are distributed in accordance with the TFM and other Treasury guidance. An active Term Participant may submit a bid in response to a Term Investment Option auction. The bid-cut off time will be stated in the auction announcement. Awards will be confirmed on the auction day. Settlement day and time will be stated in the auction announcement. On the settlement day stated in the auction announcement, the funds will be credited to the Term Participant's Master Account in accordance with section 6 of this Operating Circular. Treasury reserves the right to cancel any Term Investment auction, to adjust the settlement times or days, or to not award the full amount of the offering.

4.3.3.5 Interest Accrual and Call Procedures

Interest at the rate set forth in an auction announcement or other Treasury guidance begins accruing to Treasury on the business day that the Term Investment funds are credited to the Term Participant's Master Account in accordance with section 6 of this Operating Circular. No interest is earned on the maturity date. On the maturity date, the Term Participant's Master Account will be debited for the amount of the Term Investment (including any accrued interest and, if applicable, late fees and penalties) in accordance with section 6 of this Operating Circular, and the TIO Account Balance will be reduced accordingly.

4.3.3.6 Early Returns and Withdrawals

A Term Participant may be subject to penalties for returns of all or any part of a Term Investment before maturity. If Treasury withdraws a Term Investment early, in whole or in part, Treasury may reduce the interest rate on the investment for the time invested and/or may further compensate the Term Participant by placing another Term

Investment at a compensatory rate of interest approved by Treasury.

4.3.3.7 Continuance of Term Investment Following Merger or Acquisition

Except as provided in this paragraph, a TIO Account Balance cannot be transferred to another financial institution. If another Investor assumes a Term Investment, whether by merger, acquisition, or otherwise, that Term Investment will continue pursuant to its original terms until maturity, unless that Term Investment is returned early. If a Term Investment is terminated under this paragraph, the outstanding Term Investment, including any penalties for early return, will be collected in accordance with section 6 of this Operating Circular.

4.4 MONITORING OF INVESTMENTS AND COLLATERAL

Throughout each business day, the TSC reviews each Investor's Collateral position against the Investor's outstanding Direct Investments and/or Term Investments. Any Collateral deficiency will be resolved in accordance with Treasury regulations in 31 CFR Part 203 and guidance in the TFM. On the day that a new investment is placed with the Investor, the Investor has until the designated settlement time on that day to pledge acceptable Collateral sufficient to secure the full amount of the new investment plus outstanding Treasury investments. The TSC will notify an Investor when a Collateral deficiency is detected. Treasury may assess penalties for failure to cover timely a Collateral deficiency and may collect such penalties by causing the ARB to debit the Investor's Master Account in accordance with section 6 of this Operating Circular.

5.0 SECURING PUBLIC FUNDS AND INVESTMENTS (31 CFR Parts 202 and 203)

5.1 GENERAL COLLATERAL REQUIREMENTS

5.1.1 A Pledgor shall ensure that Collateral meets the terms and conditions prescribed in (i) Treasury's regulations, (ii) the TFM, (iii) other Treasury guidance applicable to Treasury investments and pledges of Collateral to secure Treasury investments or deposits of public money and any other

document or agreement delivered or executed in connection with any Treasury investment or pledge of Collateral to secure Treasury investments or deposits of public money, (iv) this Operating Circular, and (v) such other requirements as the Pledgor's ARB and/or the TSC may from time to time prescribe. The Pledgor shall deliver, hold, store, or otherwise maintain the Collateral in accordance with such terms, conditions, and requirements and keep all Collateral Schedules current and updated in accordance with instructions of its ARB and/or TSC.

5.1.2 A Pledgor's ARB and/or the TSC may at any time request the Pledgor to replace any item of Collateral or to grant a lien and security interest in additional assets deemed acceptable by Treasury under 31 CFR Part 380 and Treasury's procedural guidance referenced in Part 380, as amended from time to time, and in an amount acceptable to the ARB and/or the TSC, and the Pledgor shall promptly do so.

5.1.3 The Pledgor authorizes each of its ARB, the TSC, and the Pledgee to file or record in any filing office in any jurisdiction that such party deems appropriate in order to perfect its security interests in Collateral, financing statements that describe the Collateral, and, any amendments or continuation statements related thereto without the signature of the Pledgor thereon. The Pledgor shall, promptly at the ARB's, the TSC's or the Pledgee's request, provide any additional information required by Article 9 of the Uniform Commercial Code, in effect in any relevant jurisdiction, for the sufficiency or acceptability of any financing statement, amendment or continuation statement.

5.1.3.1 Each Pledgor ratifies its authorization for each of its ARB, the TSC and the Pledgee to have filed any financing statement, including any amendment or continuation statement related thereto, in any jurisdiction where the same has been filed.

5.1.3.2 Each Pledgor authorizes each of its ARB, the TSC, and the Pledgee, at any time, to take any and all other actions that may be necessary or, in the discretion of the ARB, TSC, and/or Pledgee, desirable to obtain, preserve, perfect, or enforce its security interest in the Collateral.

5.1.3.3 Each Pledgor authorizes each of its ARB, the TSC, and Pledgee to endorse or assign as the Pledgor's agent any item of Collateral, to cause Collateral consisting of uncertificated securities to be marked on the books of the securities issuer as pledged to the Pledgee or its nominee as pledgee, and to inspect Collateral held by the Pledgor and copy any relevant records and/or documents.

5.1.4 Unless otherwise specified by the ARB and/or the TSC in writing, a Pledgor shall promptly withdraw Collateral that does not meet the terms and conditions prescribed in section 5.1.1 of this Operating Circular, including:

- a) any Collateral determined by the Pledgor's ARB or the TSC not to meet the terms and conditions prescribed in regulations or other guidance applicable to a Covered Program under 31 CFR Parts 202 or 203;
- b) any Collateral that has a payment of principal or interest past due, in whole or in part, for more than 30 days (or 60 days past due for mortgage notes and other types of consumer debt, including student loans);
- c) any Collateral that has been paid in full by the obligor; or,
- d) any Collateral if the obligor on such Collateral becomes insolvent, or if a receiver, custodian, or the like is appointed for the obligor.

Prior to such withdrawal, however, the Pledgor shall update any relevant Collateral Schedule and pledge substitute Collateral that meets the terms and conditions prescribed in section 5.1.1 of this Operating Circular.

5.1.5 The Pledgor's ARB and the TSC are under no obligation to allow the Pledgor to withdraw or remove any item of Collateral or otherwise release its security interest in any item of Collateral unless:

- a) The Pledgor has provided acceptable substitute Collateral; or,
- b) The ARB and/or the TSC has verified, in accordance with its (or their respective) normal customs and procedures, that all of the Pledgor's obligations owed to the Pledgee have been fully satisfied.

- 5.1.6** With respect to Collateral pledged under this Operating Circular, and subject to applicable Treasury regulations, the TFM, other Treasury guidance, neither the Pledgor's ARB, nor the TSC, nor the Pledgee has any duty to collect any income accruing on the Collateral or to preserve any rights relating to the Collateral.
- 5.1.7** Pledges of Fedwire[®] securities are subject to Federal Reserve Bank Operating Circular 7, *Book-Entry Securities Account Maintenance and Transfer Services* ("Operating Circular 7"). To the extent of any conflict or inconsistency between Operating Circular 7 and this Operating Circular, the provisions of Operating Circular 7 shall control.
- 5.1.8** In accordance with 31 CFR Parts 202, 203 and 380, Treasury must approve the values applied to Collateral. Such values may be consistent with Federal Reserve System guidelines for valuing the same types of Collateral pledged pursuant to Operating Circular 10.
- 5.1.9** A Pledgor may arrange for Collateral pledged under 31 CFR Parts 202 or 203 to be held at a Reserve Bank or held with a third-party custodian pursuant to a custodial agreement acceptable to the ARB. If a custodian other than a Reserve Bank holds definitive Collateral, that custodian must send trust receipts directly to the Pledgor's ARB.
- 5.1.9.1 BIC Arrangement for Treasury Investment Collateral**
- A Pledgor may arrange for Collateral pledged under 31 CFR Part 203 to be held in a BIC Arrangement.
- 5.1.10** Unless an Event of Default occurs or the Pledgor's ARB and/or the TSC expressly directs otherwise, any proceeds, dividend, interest, rent, proceeds of redemption, and/or any other payment received by the Pledgor regarding any Collateral may be retained by the Pledgor. If the Pledgor's ARB and/or the TSC directs that any of the foregoing be paid to the Pledgee or its designated agent, the Pledgor shall remit those payments, or cause such payments to be remitted, promptly to the Pledgee or its designated agent and until receipt by the Pledgee or its designated agent, such payments are deemed to be held in trust for the Pledgee.

5.1.11 Nothing in this Operating Circular shall limit the Pledgee's statutory or contractual rights or remedies against a Pledgor.

5.1.12 If any Pledgor fails to perform any duty with respect to Collateral, the Pledgee, the TSC, the Pledgor's ARB, or a Reserve Bank responsible for administering the Collateral may, but is not obligated to, perform such duty on behalf of the Pledgor and any costs incurred in doing so shall be reimbursed by the Pledgor. If conflicting claims to Collateral arise, a Reserve Bank may hold the Collateral and retain any income therefrom for the benefit of the Pledgee pending resolution of the controversy.

5.1.13 With respect to any item of Collateral not delivered or transferred to a Reserve Bank or its custodian, including BIC Collateral pledged under 31 CFR Part 203, the Pledgor shall hold such item of Collateral in trust for the Pledgee until the Collateral is delivered or transferred in accordance with the instructions of the Pledgor's ARB. Subject to Treasury regulations and any other regulations applicable to any Covered Program(s), the Pledgor bears the risk of loss for any Collateral held in the Pledgor's possession, at any custodian, maintained in an account at a securities intermediary other than a Reserve Bank, or in transit to or from the Reserve Bank. The Pledgor also bears the risk of any accidental loss or damage to Collateral in the Reserve Bank's possession to the extent the Reserve Bank exercised reasonable care.

5.2 PLEDGING BIC COLLATERAL TO SECURE TREASURY INVESTMENTS (31 CFR PART 203)

5.2.1 If approved by its ARB, the Pledgor may pledge certain Collateral to secure a Treasury investment under 31CFR Part 203 pursuant to a BIC Arrangement.

5.2.2 BIC Collateral pledged under 31 CFR Part 203 shall be prominently identified as pledged to the Pledgee and subject exclusively to the written instructions of the Pledgor's ARB. At the ARB's request, the Pledgor shall, without delay, prominently and conspicuously affix a legend to items of BIC Collateral indicating that such items are subject to a security interest in favor of the Pledgee.

- 5.2.3** The Pledgor shall mark its records to show that BIC Collateral has been pledged to the Pledgee and is subject exclusively to the written instructions of the Pledgor's ARB. Any computer generated list or report containing BIC Collateral pledged under 31 CFR Part 203 must incorporate a legend indicating that such Collateral is pledged to the Pledgee.
- 5.2.4** Upon request by the Pledgor's ARB, the Pledgor shall at all times segregate BIC Collateral from its own assets or the assets of any other party and shall hold Collateral in such location(s) approved by the ARB. BIC Collateral pledged under 31 CFR Part 203 shall not be removed from such location(s) without prior written approval of the Pledgor's ARB.
- 5.2.5** The Pledgor may withdraw or replace BIC Collateral pledged under 31 CFR Part 203 only with the approval of the TSC and the Pledgor's ARB on terms acceptable to its ARB.
- 5.2.6** The Pledgor's ARB and/or the TSC may from time to time notify Pledgor of additional requirements applicable to BIC Collateral pledged under 31 CFR Part 203. The Pledgor's failure to comply with such requirements shall disqualify the Pledgor from participation in a BIC Arrangement.

5.3 REPRESENTATIONS AND WARRANTIES

5.3.1 The Pledgor represents and warrants that:

- a) (i) it has the power and authority, and the legal right, to be bound by this Operating Circular, (ii) it has taken all necessary organizational action to authorize its agreement to the terms of this Operating Circular and the execution, delivery and performance of all documents or agreements delivered or executed in connection with any applicable Covered Program(s) or this Operating Circular; (iii) no consent or authorization of, filing with, notice to, or other act by or in respect of, any governmental authority or any other person is required in connection with the execution, delivery, performance, validity, or enforceability of its obligations hereunder or under any documents or agreements delivered or executed in connection with any applicable Covered Program(s) or this Operating Circular; and (iv) all documents required to be

executed in connection with any applicable Covered Program(s) and this Operating Circular have been duly executed and delivered on behalf of the Pledgor;

- b) it is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization and is not in violation of any laws or regulations in any respect that could have an adverse effect upon the validity, performance or enforceability of any of the terms of this Operating Circular or any documents or agreements delivered or executed in connection with any applicable Covered Program(s) or this Operating Circular;
- c) this Operating Circular and all documents or agreements delivered or executed in connection with any applicable Covered Program(s) and this Operating Circular constitute a legal, valid, and binding obligation of the Pledgor, enforceable against the Pledgor in accordance with their respective terms;
- d) it has rights in the Collateral sufficient to grant an enforceable security interest to the Pledgee and its rights in such Collateral are free of any Adverse Claim, except for the security interest granted to the Pledgee;
- e) (i) the security/collateral documents and agreements executed and delivered in connection with any applicable Covered Program(s) are sufficient to create in favor of the Pledgee a legal, valid, and enforceable security interest in the Collateral described therein and proceeds thereof; and, (ii) with respect to any Collateral pledged to a Pledgee and as to which perfection can be obtained by filing,
 - when financing statements are filed in the appropriate state filing offices, the security interest granted by the Pledgor shall constitute a fully and validly perfected lien on, and security interest in, all rights, title and interest of the Pledgor in such Collateral, in each case prior and superior in right to any other person (except for liens that arise by operation of law); and

- no other financing statement or other public notice with respect to all or any part of such Collateral is on file or of record in any public office;
- f) no statement or information contained in any document, certificate, or statement furnished to the Pledgee, the Pledgor's ARB, and/or the TSC for use in connection with any transaction contemplated in any applicable Covered Program(s) and this Operating Circular is, on and as of the date when furnished, untrue as to any material fact or omits any material fact necessary to make the same not misleading, and the representations and warranties therein are true and correct in all material respects;
 - g) it has evaluated the potential risks and liabilities accruing thereto under applicable Federal and State environmental laws, rules, and regulations and has determined, to the best of its knowledge that under applicable laws, rules, and regulations that impose environmental liability on a creditor or lender or an owner or manager of the real property that secures the Collateral, it does not have and has not assumed any liability of any person thereunder; and
 - h) no Event of Default has occurred or is continuing with respect to such Pledgor.

5.3.2. A Pledgor is deemed to make all of the foregoing representations and warranties each time it applies to become an Investor, receives an investment from the Treasury, or pledges Collateral to secure Treasury investments or to secure deposits of public money. Such representations and warranties shall be true on and as of such date and shall remain true and correct so long as any Pledgor obligation remains outstanding under any applicable Covered Program(s) and this Operating Circular.

5.4 COVENANTS

5.4.1 The Pledgor covenants that so long as its obligations in connection with any applicable Covered Program under 31 CFR Parts 202 and 203 or under this Operating Circular remain outstanding:

- a) the Pledgor shall provide to its ARB and/or the TSC any reports or statements that either may request;

- b) the Pledgor shall permit its ARB and/or the TSC to inspect or copy any documents or evidence in the Pledgor's possession or control relating to Collateral and any obligation owed to a Pledgee;
- c) the Pledgor shall have rights in the Collateral free from any Adverse Claim, except for the security interest granted therein to the Pledgee, and shall maintain the security interest created thereby as a perfected security interest with the priority set forth in Section 5.3.1(e) and shall take all actions necessary or prudent to defend against Adverse Claims;
- d) the Pledgor shall not (i) sell or otherwise dispose of, or offer to sell or otherwise dispose of, the Collateral or any interest therein, or (ii) pledge, mortgage, or create, or permit the existence of any right of any person in or claim to, the Collateral other than the security interest granted therein;
- e) the Pledgor shall pay promptly when due (or before they become delinquent) all taxes, assessments, governmental charges, and levies imposed upon the Collateral or any income or profits therefrom, and any claims of any kind against Collateral;
- f) upon the request of the Pledgee, the Pledgor's ARB and/or the TSC, the Pledgor shall promptly reimburse its ARB and/or the TSC for any expense incurred by them with respect to enforcing or administering any item of Collateral, including perfecting or maintaining perfection of the Pledgee's security interest in the Collateral, and assembling, transporting, safekeeping, managing, inspecting, or liquidating Collateral;
- g) the Pledgor shall not perform any act with respect to any Collateral that would impair the rights or interests of the Pledgee therein, nor will the Pledgor fail to perform any act that could reasonably be expected to prevent such impairment or that is necessary to preserve the Pledgee's rights;
- h) at the request of its ARB and/or the TSC, the Pledgor shall promptly execute any agreement or document and take any other actions that its ARB and/or the TSC deems necessary or desirable, including but not limited to the execution and delivery of any document such party deems necessary to grant, perfect or

- otherwise protect the security interest of the Pledgee in any existing or additional Collateral;
- i) the Pledgor shall promptly notify its ARB if the Pledgor is or is about to become an undercapitalized depository institution or a critically undercapitalized depository institution, as such terms are defined in Regulation A (12 C.F.R. § 201);
 - j) the Pledgor shall renew or keep in full force and effect its organizational existence or take all reasonable action to maintain all rights, privileges, licenses, and franchises necessary or desirable in the normal conduct of its business;
 - k) without providing at least 30 days' prior written notice to the ARB and TSC, the Pledgor shall not take any action that may cause or permit any information provided by it to the Pledgee, the Pledgor's ARB, and/or the TSC for the purpose of filing the appropriate financing statements to become untrue;
 - l) the Pledgor shall maintain all documents and agreements executed and delivered in accordance with the Covered Programs under 31 CFR Parts 202 and 203 in the same manner as it maintains all other official corporate records, and such documents shall be immediately and routinely available to any examiner authorized to examine it;
 - m) in any BIC Arrangement for collateral pledged under 31 CFR Part 203 to secure a Treasury investment, the Pledgor shall provide for periodic audits of BIC Collateral, shall notify its ARB immediately of any irregularities discovered during any audits, shall certify periodically, as determined by its ARB, that it is complying with the requirements of the BIC Arrangement, and, if applicable, shall ensure risk ratings assigned to any Collateral subject to Pledgor's internal loan ratings are accurate;
 - n) the Pledgor shall promptly notify its ARB of the occurrence or impending occurrence of any Event of Default; and
 - o) the Pledgor shall promptly notify its ARB of any change in applicable law, the regulations or policies of its chartering and/or licensing authority, or its charter, bylaws, or other governing documents, or any legal or regulatory process asserted against the Pledgor, that

materially affects or may materially affect the Pledgor's authority or ability to lawfully perform its obligations under this Operating Circular or in connection with any Covered Program under 31 CFR Parts 202 and 203 in which it is participating.

5.5 SATISFACTION OF CLAIMS

In accordance with applicable Treasury regulations, the TFM, and other Treasury guidance, any item of Collateral may be collected, sold, assigned, or transferred, and the proceeds therefrom applied to satisfy any obligation that a Pledgor owes to (i) a Pledgee in connection with any applicable Covered Program(s) under 31 CFR Parts 202 and 203, or (ii) the Government. If a Pledgor has multiple obligations to the Government, then Treasury may, either directly or through the TSC, instruct the Pledgor's ARB to, and the Pledgor's ARB may, offset any loss arising from any one of the obligations with any Collateral pledged to the Government for any obligation of the Pledgor owed to the Government.

5.6 REMEDIES UPON DEFAULT

Upon the occurrence of, and at any time during the continuance of, an Event of Default, the Pledgee and/or its designated agent may pursue any remedies available under applicable law and by contract to collect, enforce, or satisfy any obligation owed by the Pledgor to (i) the Pledgee in connection with any applicable Covered Program(s) under 31 CFR Parts 202 and 203, or (ii) the Government.

6.0 PLEDGES OF COLLATERAL UNDER 31 CFR PART 225

6.1 GENERAL COLLATERAL REQUIREMENTS

6.1.1 A Pledgor shall ensure that Collateral meets the terms and conditions prescribed in Treasury's regulations, the TFM, other Treasury guidance applicable to a Covered Program under 31 CFR Part 225, any other document or agreement delivered or executed in connection with a Covered Program under 31 CFR Part 225, this Operating Circular, and such other requirements as the Pledgor's ARB and/or the TSC may from time to time prescribe.

- 6.1.2** A Pledgor's ARB and/or the TSC may at any time request the Pledgor to replace any item of Collateral or to grant a lien and security interest in additional assets deemed acceptable by Treasury under 31 CFR Part 380 and Treasury's procedural guidance referenced in Part 380, as amended from time to time, and in an amount acceptable to the ARB and/or the TSC, and the Pledgor shall promptly do so.
- 6.1.3** Unless otherwise specified by the ARB and/or the TSC in writing, a Pledgor shall promptly withdraw Collateral that does not meet the terms and conditions prescribed in regulations or other guidance applicable to a Covered Program under 31 CFR Part 225. Prior to such withdrawal, the Pledgor shall update any relevant Collateral Schedule and pledge substitute Collateral that meets the terms and conditions prescribed in regulations or other guidance applicable to a Covered Program.
- 6.1.4** The Pledgor's ARB and the TSC are under no obligation to allow the Pledgor to withdraw or remove any item of Collateral or otherwise release its security interest in any item of Collateral unless:
- a) The Pledgor has provided acceptable substitute Collateral; or,
 - b) The ARB and/or the TSC has verified, in accordance with its (or their respective) normal customs and procedures, that all of the Pledgor's obligations owed to the Pledgee have been fully satisfied.
- 6.1.5** With respect to Collateral pledged under this Operating Circular and subject to applicable Treasury regulations, the TFM, other Treasury guidance, neither the Pledgor's ARB, nor the TSC, nor the Pledgee has any duty to collect any income accruing on the Collateral or to preserve any rights relating to the Collateral.
- 6.1.6** Pledges of Fedwire[®] securities are subject to Federal Reserve Bank Operating Circular 7, *Book-Entry Securities Account Maintenance and Transfer Services* ("Operating Circular 7"). To the extent of any conflict or inconsistency between Operating Circular 7 and this Operating Circular, the provisions of Operating Circular 7 shall control.

6.1.7 In accordance with 31 CFR Parts 225 and 380, Treasury must approve the values applied to Collateral. Such values may be consistent with Federal Reserve guidelines for valuing the same types of Collateral pledged pursuant to Operating Circular 10.

6.1.8 Nothing in this Operating Circular shall limit the Pledgee's statutory or contractual rights or remedies against an Obligor or a Pledgor.

6.2 REPRESENTATIONS AND WARRANTIES

6.2.1 The Pledgor represents and warrants that:

- a) (i) it has the power and authority, and the legal right, to be bound by this Operating Circular, (ii) it has taken all necessary organizational action to authorize its agreement to the terms of this Operating Circular and the execution, delivery and performance of all documents or agreements delivered or executed in connection with any applicable Covered Program(s) or this Operating Circular; (iii) no consent or authorization of, filing with, notice to, or other act by or in respect of, any governmental authority or any other person is required in connection with the execution, delivery, performance, validity, or enforceability of its obligations hereunder or under any documents or agreements delivered or executed in connection with any applicable Covered Program(s) or this Operating Circular; and (iv) all documents required to be executed in connection with any applicable Covered Program(s) and this Operating Circular have been duly executed and delivered on behalf of the Pledgor;
- b) it is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization and is not in violation of any laws or regulations in any respect that could have an adverse effect upon the validity, performance or enforceability of any of the terms of this Operating Circular or any documents or agreements delivered or executed in connection with any applicable Covered Program(s) or this Operating Circular;
- c) this Operating Circular and all documents or agreements delivered or executed in connection with any applicable Covered Program(s) and this Operating Circular constitute a legal, valid, and binding obligation of the

Pledgor, enforceable against the Pledgor in accordance with their respective terms;

- d) it has rights in the Collateral sufficient to grant an enforceable security interest to the Pledgee and its rights in such Collateral are free of any Adverse Claim, except for the security interest granted to the Pledgee;
- e) (i) the security/collateral documents and agreements executed and delivered in connection with any applicable Covered Program(s) are sufficient to create in favor of the Pledgee a legal, valid, and enforceable security interest in the Collateral described therein and proceeds thereof; and, (ii) with respect to any Collateral pledged to a Pledgee and as to which perfection can be obtained by filing,
 - when financing statements are filed in the appropriate state filing offices, the security interest granted by the Pledgor shall constitute a fully and validly perfected lien on, and security interest in, all rights, title and interest of the Pledgor in such Collateral, in each case prior and superior in right to any other person (except for liens that arise by operation of law); and
 - no other financing statement or other public notice with respect to all or any part of such Collateral is on file or of record in any public office;
- f) no statement or information contained in any document, certificate, or statement furnished to the Pledgee, the Pledgor's ARB, and/or the TSC for use in connection with any transaction contemplated in any applicable Covered Program(s) and this Operating Circular is, on and as of the date when furnished, untrue as to any material fact or omits any material fact necessary to make the same not misleading, and the representations and warranties therein are true and correct in all material respects;
- g) it has evaluated the potential risks and liabilities accruing thereto under applicable Federal and State environmental laws, rules, and regulations and has determined, to the best of its knowledge that under applicable laws, rules, and regulations that impose environmental liability on a creditor or lender or an owner or manager of the real property that secures the Collateral, it does not have and has not assumed any liability of any person thereunder; and

h) no Event of Default has occurred or is continuing with respect to such Pledgor.

6.2.2. A Pledgor is deemed to make all of the foregoing representations and warranties each time it pledges Collateral under a 31 CFR Part 225 Covered Program(s). Such representations and warranties shall be true on and as of such date and shall remain true and correct so long as any Pledgor obligation remains outstanding under the applicable Covered Program(s) and this Operating Circular.

6.3 COVENANTS

6.3.1 The Pledgor covenants that so long as its obligations in connection with any applicable Covered Program under 31 CFR Part 225 or under this Operating Circular remain outstanding:

- a) the Pledgor shall provide to its ARB and/or the TSC any reports or statements that either may request;
- b) the Pledgor shall permit its ARB and/or the TSC to inspect or copy any documents or evidence in the Pledgor's possession or control relating to Collateral and any obligation owed to a Pledgee;
- c) the Pledgor shall have rights in the Collateral free from any Adverse Claim, except for the security interest granted therein to the Pledgee, and shall maintain the security interest created thereby as a perfected security interest with the priority set forth in Section 6.2.1(e) and shall take all actions necessary or prudent to defend against Adverse Claims;
- d) the Pledgor shall not (i) sell or otherwise dispose of, or offer to sell or otherwise dispose of, the Collateral or any interest therein, or (ii) pledge, mortgage, or create, or permit the existence of any right of any person in or claim to, the Collateral other than the security interest granted therein;
- e) the Pledgor shall pay promptly when due (or before they become delinquent) all taxes, assessments, governmental charges, and levies imposed upon the Collateral or any income or profits therefrom, and any claims of any kind against Collateral;

- f) upon the request of the Pledgee, the Pledgor's ARB and/or the TSC, the Pledgor shall promptly reimburse its ARB and/or the TSC for any expense incurred by them with respect to enforcing or administering any item of Collateral, including perfecting or maintaining perfection of the Pledgee's security interest in the Collateral, and assembling, transporting, safekeeping, managing, inspecting, or liquidating Collateral;
- g) the Pledgor shall not perform any act with respect to any Collateral that would impair the rights or interests of the Pledgee therein, nor will the Pledgor fail to perform any act that could reasonably be expected to prevent such impairment or that is necessary to preserve the Pledgee's rights;
- h) at the request of its ARB and/or the TSC, the Pledgor shall promptly execute any agreement or document and take any other actions that its ARB and/or the TSC deems necessary or desirable, including but not limited to the execution and delivery of any document such party deems necessary to grant, perfect or otherwise protect the security interest of the Pledgee in any existing or additional Collateral;
- i) the Pledgor shall promptly notify its ARB if the Pledgor is or is about to become an undercapitalized depository institution or a critically undercapitalized depository institution, as such terms are defined in Regulation A (12 C.F.R. § 201);
- j) the Pledgor shall renew or keep in full force and effect its organizational existence or take all reasonable action to maintain all rights, privileges, licenses, and franchises necessary or desirable in the normal conduct of its business;
- k) without providing at least 30 days' prior written notice to the ARB and TSC, the Pledgor shall not take any action that may cause or permit any information provided by it to the Pledgee, the Pledgor's ARB, and/or the TSC for the purpose of filing the appropriate financing statements to become untrue;
- l) the Pledgor shall maintain all documents and agreements executed and delivered in accordance with the Covered Programs under 31 CFR Part 225 in the same manner as it maintains all other official corporate records, and such

documents shall be immediately and routinely available to any examiner authorized to examine it;

- m) the Pledgor shall promptly notify its ARB of the occurrence or impending occurrence of any Event of Default; and
- n) the Pledgor shall promptly notify its ARB of any change in applicable law, the regulations or policies of its chartering and/or licensing authority, or its charter, bylaws, or other governing documents, or any legal or regulatory process asserted against the Pledgor, that materially affects or may materially affect the Pledgor's authority or ability to lawfully perform its obligations under this Operating Circular or in connection with any Covered Program under 31 CFR Part 225 in which it is participating.

6.4 SATISFACTION OF CLAIMS

In accordance with applicable Treasury's regulations, the TFM, and other Treasury guidance, any item of Collateral may be collected, sold, assigned, or transferred, and the proceeds therefrom applied to satisfy any obligation that an Obligor owes to (i) a Pledgee in connection with any applicable Covered Program(s) under 31 CFR Part 225, or (ii) the Government. If an Obligor has multiple obligations to the Government, then the Pledgee or Treasury may, either directly or through the TSC, instruct the Pledgor's ARB to, and the Pledgor's ARB may, offset any loss arising from any one of the obligations with any Collateral pledged to the Government for any obligation of the Obligor owed to the Government.

6.5 REMEDIES UPON DEFAULT

Upon the occurrence of, and at any time during the continuance of, an Event of Default, the Pledgee and/or its designated agent may pursue any remedies available under applicable law and by contract to collect, enforce, or satisfy any obligation owed by the Obligor to (i) the Pledgee in connection with any applicable Covered Program(s) under 31 CFR Part 225, or (ii) the Government.

7.0 AUTHORIZATION TO DEBIT OR CREDIT A MASTER ACCOUNT

- 7.1** Expenses incurred with respect to any item of Collateral, placement of Treasury investments, payment of accrued interest on Treasury investments, and any applicable late charges and penalties with respect to Treasury investments are accomplished by a credit or debit to a Master Account. A Reserve Bank is not required and shall not credit a Master Account unless it has received sufficient funds from Treasury to cover the Treasury investment. A financial institution that does not have a Master Account must identify a correspondent that has a Master Account to settle on the financial institution's behalf. A Correspondent - Respondent relationship must be established according to Operating Circular 1. If a financial institution has designated a correspondent for purposes of settling debits and credits in connection with this Operating Circular, references in this Operating Circular to a Master Account mean the Master Account of that correspondent.
- 7.2** By participating in a Covered Program under 31 CFR Part 203 (Treasury investments) and/or by pledging Collateral pursuant to a Covered Program under 31 CFR Parts 202, 203, and/or 225 to secure financial interests of the Government, a financial institution authorizes its ARB, either directly or through the TSC, to debit the appropriate Master Account for the amount of 1) a withdrawal ("call") from its TT&L Account or SDI Account Balance, 2) a withdrawal upon maturity from its TIO Account Balances, 3) withdrawals of investment amounts for Collateral deficiencies, 4) withdrawals of investment amounts that exceed balance limits, 5) expenses related to Collateral, and 6) interest, late charges, or penalties due to Treasury in connection with Treasury investments.
- 7.3** Each credit and debit to a Master Account pursuant to this Operating Circular becomes final at the time it is posted. Notice of the debit or credit in an account statement for the Master Account is conclusive evidence that the debit or credit was made. The ARB reserves the right to debit or credit a Master Account on its books (without further authorization or instruction) to correct any errors made by it or another Reserve Bank relating to the Covered Programs.

8.0 MISCELLANEOUS

- 8.1** A Reserve Bank assumes no liability hereunder for acting in reliance upon any communication, whether by written or electronic means, reasonably believed by the Reserve Bank to be genuine or to be sent by an individual acting on behalf of a Pledgor.
- 8.2** Unless otherwise specifically provided herein, a Reserve Bank is liable to a Pledgor only for the actual direct loss sustained by a Pledgor proximately caused by the Reserve Bank's failure to exercise ordinary care in performing its duties under this Operating Circular. In no event shall the Reserve Bank be liable to a Pledgor for consequential, indirect, incidental or special damages (including lost profits), however derived, even if the Reserve Bank has been informed of the possibility thereof.
- 8.3** Each Pledgor releases and forever discharges the Reserve Bank from all other claims, demands, and liability of the Pledgor in connection with the Reserve Bank's performance of its duties under this Operating Circular and indemnifies the Reserve Bank for any claims of other parties, including costs of litigation and reasonable attorneys' fees, with respect to Collateral pledged by the Pledgor and held by a Reserve Bank.
- 8.4** The Pledgor is solely responsible for verifying the Collateral information and for compliance with the terms and conditions applicable to pledging Collateral under this Operating Circular. Subject to Treasury regulations and any other regulations applicable to any Covered Program(s), the Pledgor bears the risk of any loss, penalty, or damage arising from a Reserve Bank's failure to identify ineligible Collateral or miscalculation of Collateral value. A Reserve Bank's error in monitoring Collateral, including calculating Collateral value, shall not give rise to a claim by the Pledgor against a Reserve Bank. The Pledgor indemnifies each Reserve Bank for any claims of other parties with respect to Collateral pledged by the Pledgor.
- 8.5** In particular, but not exclusively, a Reserve Bank has no duty to Pledgor to: (a) act as escrow agent or in any other capacity not expressly provided for in this Operating Circular; (b) determine the validity of the pledge of Collateral by a Pledgor to a Pledgee; or, (c) verify ownership, validity, or legality of the Collateral.

- 8.6** The terms in this Operating Circular supplement the terms prescribed under the Treasury regulations, the TFM, and other Treasury guidance with respect to any applicable Covered Program(s) as well as the documents required to be executed in connection therewith. In the event of a conflict or any inconsistency between the terms set forth in
- (i) Treasury regulations, the TFM, or other Treasury guidance with respect to any applicable Covered Program(s) or the documents required to be executed in connection therewith, and,
 - (ii) the provisions of this Operating Circular, those terms in such Treasury regulations, the TFM, other Treasury guidance or documents control unless the provisions of this Operating Circular afford greater protection with respect to securing financial interests of the Government under any Covered Program.

9.0 EFFECT OF THIS OPERATING CIRCULAR

This Operating Circular amends and supersedes all prior Reserve Bank operating circulars, including any appendices and supplements, relating to Covered Programs, including the TT&L Program, surety bonds, and Treasury investments. Current signed agreements between a Reserve Bank and any financial institution pertaining to Covered Programs, including the TT&L Program, surety bonds, or Treasury investments, remain in effect and are supplemented by this Operating Circular, the terms of which supersede any inconsistent terms in any such signed agreement.

10.0 RIGHT TO AMEND

The Reserve Banks may amend this Operating Circular at any time without prior notice.

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