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# Treasury Financial Manual

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## Chapter 1000

### SECURING GOVERNMENT FUNDS ON DEPOSIT WITH A DEPOSITARY

This chapter prescribes depository requirements for securing federal agency funds on deposit.

#### **Section 1010—Applicability**

When a federal agency places funds on deposit with a financial institution, the financial institution must pledge collateral under conditions described in this chapter. The pledging of collateral by a financial institution is necessary to protect the federal government against risk of loss. State, local, and municipal deposits are not covered under this chapter.

#### **Section 1015—Authority**

See, inter alia, 12 U.S.C. 90, 265, 266, and 1789a; 31 U.S.C. 321 and 3303; and 31 CFR 202 and 380.

#### **Section 1020—Definitions**

**Collateral Management System (CMS)**—An application operated by the Federal Reserve Bank (FRB) that maintains a record of and values collateral pledged in Fedwire book-entry, non-Fedwire book-entry, or in definitive (physical) form for all Treasury collateral programs administered by the FRBs. FRBs process collateral transactions maintained and valued on this system.

**Demand Deposits**—Funds held by a financial institution that the owner can withdraw at any time without prior notice. Checking accounts are the most common form of a demand deposit.

**Depository**—A financial institution designated by Treasury to hold public money and perform other services per 31 CFR Part 202. Agencies that have the requisite statutory authority to hold public funds outside of the Treasury must use depositories to hold those funds unless their statutes otherwise provide.

**Federal Reserve Banks (FRBs)**—Fiscal agents of the Federal Government that serve specific geographical areas and act as custodians of collateral pledged to government agencies.

**Financial Institution**—A bank, savings and loan, credit union, or other such entity as defined under 31 CFR Part 202.

**Form FS-5902-Collateral Security Resolution**—A form that establishes the right of Treasury to secure an interest in a financial institution's assets.

**Form FS-5903-Collateral Pledge and Security Agreement**—A form that memorializes the agreement for a financial institution to pledge collateral security in exchange for placing funds on deposit.

**National Book Entry System (NBES)**—A centralized FRB system facilitating the transfer of book-entry securities. NBES also stores and maintains relevant information about those securities.

**Official Custodian**—A Government official that has plenary authority to control funds possessed by the public unit the custodian is appointed or elected to serve. Control of public funds includes possession and the authority to establish accounts for such funds in insured depositories; and to make deposits, withdrawals, and disbursements of such funds.

**Recognized Insurance Coverage**—Insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Share Insurance Fund, administered by the National Credit Union Administration (NCUA), and other qualified organizations recognized by Treasury under 31 CFR Part 202.

**Security Account Reports**—Two essential reports available in the Treasury Collateral Management and Monitoring (TCMM) application. The FRB Security Account Holdings Report is available monthly. This report lists all securities pledged to an agency. Additionally, the Collateral Monitoring Recap Report is available monthly and provides agencies with a recap of security collateral values and the amount to be collateralized for their V accounts (see below) throughout the month.

**Time and Savings Deposits**—Time deposits are deposits subject to an interest penalty if withdrawn before a specific maturity date. Savings deposits are deposits subject to limitations on withdrawal, including advance notice of intent to withdraw funds from the savings deposit.

**Treasury Collateral Management and Monitoring (TCMM)**—A centralized application operated by the Federal Reserve to monitor securities and other financial assets pledged as collateral to secure public funds.

**TCMM Treasury Operations Team**—An FRB unit providing centralized customer service for Treasury collateral programs for eligible securities, or other financial assets pledged as collateral to secure public funds.

**V Account**—A four-digit alphanumeric collateral account number (such as V000) assigned to a federal agency to which collateral can be pledged by a depository. The V account number is established in CMS and NBES, and it is used in TCMM.

## **Section 1025—Responsibilities for Public Money**

Treasury's Bureau of the Fiscal Service (Fiscal Service) promulgates rules and provides guidance for the security of public money on deposit in depositories. The rules outlining broad policy objectives with securing such funds and related collateral guidance are referenced in 31 CFR Part 202 and 31 CFR Part 380. The TFM provides more detailed policy guidance and detailed procedures that agencies, depositories, and FRBs must follow to ensure the funds are secured. Each agency must remain informed of and compliant with the latest collateral regulations, rules, and procedures.

Fiscal Service determines the types of acceptable collateral depositories can use to secure deposits of public money. Fiscal Service also determines appropriate margins on pledged collateral.

The following subsections outline the distribution of responsibilities for securing deposits of public money.

### **1025.10—Depositaries**

Depositaries must:

- complete FS Form 5902: Resolution Authorizing Execution of Depositary, Financial Agency, and Collateral Agreement; and FS Form 5903: Depositary, Financial Agency, and Collateral Agreement (see Section 1030) and submit these forms to the TCMM Operations Team to establish collateral security accounts,
- pledge sufficient eligible collateral security as required by the Secretary of the Treasury and make such substitutions or additions as needed. See the [TreasuryDirect](#) website,
- provide agencies and FRBs with requested information, and
- advise agencies when the depositary is not able or willing to pledge collateral.

### **1025.20—FRBs**

All FRBs must secure pledged collateral to protect public funds.

### **1025.30—TCMM Operations Team**

The TCMM Operations Team must:

- ensure that pledged collateral is eligible and sufficient to secure deposits of public money,
- maintain and distribute FS Form 5902 and FS Form 5903,
- maintain a current list of collateral contacts,
- make available the FRB Security Account Holdings Report and the Collateral Monitoring Recap Report to agencies on a monthly basis through TCMM system,
- make available the Collateral Monitoring Recap Report to depositaries on a monthly basis through TCMM system,
- open collateral accounts in NBES, CMS, and TCMM system, and
- value collateral.

### **1025.40—Agencies**

Each agency must:

- establish a TCMM account and V account by completing the TCMM Agency Access Form available on [Treasury Collateral Management and Monitoring](#) website,
- provide the TCMM Operations Team with a timely annual update of contact information,
- notify the TCMM Operations Team immediately when there are changes to authorized individuals. See the [Treasury Collateral Management and Monitoring](#) website to obtain the form to update contact information,
- provide timely address changes to the TCMM Operations Team,
- notify Fiscal Service in writing when canceling a V account. The agency must state that it no longer has collateral holdings and no longer needs the V account,
- develop and maintain internal operating procedures to ensure the security of public money. Fiscal Service may request a copy of agency procedures,
- ensure that TCMM system has the most accurate and up-to-date amount on deposit to be collateralized. This allows the TCMM Operations Team to maintain sufficient collateral in

excess of the recognized deposit insurance limit. See 12 CFR Part 330 (Deposit Insurance Coverage), and

- monitor agency collateral records by reviewing the monthly FRB Security Account Holdings Report and the Collateral Monitoring Recap Report. Both reports are available in the TCMM application.

### **1025.50—Fiscal Service**

The role of Fiscal Service is to:

- assign and maintain V account numbers and provide agency information to the FRB so that the FRB may establish accounts,
- establish collateral policy,
- establish and maintain lists of acceptable collateral and assigned margins. See the [TreasuryDirect](#) website, and
- periodically update the criteria and guidance for acceptable collateral and applicable margins. See the [TreasuryDirect](#) website.

### **Section 1030—Financial Institution Agreement**

To accept deposits of public money, a financial institution must be designated by Treasury as a depository and financial agent of the federal government under 31 CFR Part 202. Before accepting deposits in excess of the recognized insurance coverage, each depository must complete FS Form 5902 and FS Form 5903.

When a financial institution contacts the TCMM Operations Team about pledging collateral to secure agency deposits, the TCMM Operations Team ensures it has a completed FS Form 5902 and FS Form 5903 on file from the financial institution. If it does not, the TCMM Operations Team sends those forms to the financial institution along with a cover letter and a copy of 31 CFR 202 and 380.

The financial institution must complete and return the forms to the TCMM Operations Team before a collateral account is established or securities are deposited. The depository should not hold any funds not protected by recognized insurance coverage or collateral pledged as a surety. The TCMM Operations Team maintains all pledging documentation. This includes the FS Form 5902 and FS Form 5903 and any other pertinent collateral transaction documents.

### **Section 1035—Acceptable Collateral**

Unless otherwise specified by the Secretary of the Treasury, depositories may pledge collateral in the form of transferable securities of any of the acceptable classes as noted in Fiscal Service guidance. The FRB accepts collateral at values (mark to market) it assigns. See the [TreasuryDirect](#) website.

Securities not negotiable without endorsement or assignment are acceptable if the depository either places its unqualified endorsement on each security or furnishes an appropriate resolution and irrevocable power of attorney authorizing the FRB to assign the securities.

### **Section 1040—Receiving Collateral**

If an agency expects its account balance to exceed the recognized deposit insurance limit, it must set the new amount to be collateralized in TCMM system to ensure effective monitoring of collateral. As long as a depository supplies the V account number and has completed FS Form 5902 and FS Form 5903, the

TCMM Operations Team must accept the pledge of acceptable collateral.

When the TCMM Operations Team receives pledging instructions from the depository, it must determine if the agency has been assigned a V account number. If not, the TCMM Operations Team must advise the agency to contact Fiscal Service for an account number assignment. If the depository has not previously pledged securities to an agency, it must complete the FS Form 5902 and FS Form 5903. The TCMM Operations Team sends these forms to the depository (see Section 1030). The TCMM Operations Team also determines if the securities pledged are acceptable as collateral (see Section 1035). All district FRBs deposit the securities into the depository's safekeeping account pledged to the agency.

The FRB may receive a deposit of securities from an off-line depository without prior receipt instructions. In this case, the securities operations staff at the district FRB should not reverse the deposit automatically but should contact the depository to determine the proper disposition of the deposit of securities.

### **Section 1045—Excess Collateral**

A depository must pledge all collateral to a specific agency V account. If a depository pledges collateral in excess of the requested amount, the entire pledge is applied to the indicated agency account. For example, Agency "X" requests a pledge of \$103,000. The depository chooses to pledge \$105,000 because of the profile of its securities portfolio. Agency "X" is credited with the entire \$105,000 pledge, not just the \$103,000 requested. The depository may not pledge the excess \$2,000 to agency "Y". The depository must pledge additional, separate securities to satisfy agency "Y's" collateral requirement.

### **Section 1050—Maturing Securities**

The TCMM Operations Team monitors agency V accounts to identify maturing securities. Because most of the pledged securities are made in book-entry form, the FRB must have procedures in place to prevent under-collateralization of the agency account. This could result from either the redemption or payment of pledged securities. In this case, the FRB sends a report notifying each depository of its upcoming maturing securities. Depending on the circumstances, the TCMM Operations Team must take the actions discussed below.

#### **1050.10—Substitution Required**

If the TCMM Operations Team determines that a depository's collateral account must remain at the current level, the FRB contacts the depository at least 10 business days before the maturity date of the current pledged securities. The FRB report instructs the depository in substituting collateral. If the depository does not substitute new collateral one business day before the maturation/redemption date, the TCMM Operations Team calls the depository to discuss the need for additional collateral or the withholding of proceeds.

#### **1050.20—Substitution Not Required**

If the collateral amount can be reduced without under-collateralizing the V account, the TCMM Operations Team releases the collateral.

#### **1050.30—Substitution Required but Not Received**

Book-entry securities must be redeemed and paid on their maturity date. However, the TCMM Operations Team withholds payment if it does not receive a collateral substitution from a depository on time. The

TCMM Operations Team holds redemption proceeds in a general ledger account until the depository deposits substitute collateral into the account pledged to the agency, or until the agency lowers the amount to be collateralized.

### **Section 1055—Depository Mergers**

It is important that agency and TCMM Operations Team collateral records correctly reflect the outcome of depository mergers. This ensures that collateral deficiencies do not develop. When an agency maintains accounts with two depositories, each account is separately insured by recognized deposit insurance. If two depositories serving the same agency merge, the surviving depository may need to pledge additional collateral to replace the insurance coverage lost because of the merger.

### **Section 1060—Availability of Monthly Reports**

TCMM Operations Team provides the FRB Security Account Holdings Report and the Collateral Monitoring Recap Report monthly. Agencies and depositories use these reports to ensure that their deposits are adequately protected and to evaluate whether any changes are needed to their amounts to be collateralized.

### **Section 1065—Handling Collateral Pledged by an Insolvent Depository**

If a depository that has pledged collateral to an agency becomes insolvent, the TCMM Operations Team should refer to [Volume II, Part 8, Chapter 3000](#), for guidance. Neither the TCMM Operations Team nor the agency can authorize the release of collateral in the event of a depository's insolvency. Only Fiscal Service can instruct the TCMM Operations Team to release collateral held under 31 CFR 202 for an insolvent depository.

### **Contacts**

#### **Direct inquiries concerning this chapter to:**

Department of the Treasury  
Bureau of the Fiscal Service  
Bank Policy and Oversight Division  
3201 Pennsy Drive, Building E  
Landover, MD 20785  
Telephone: 202-874-8471  
Email: [BMT@fiscal.treasury.gov](mailto:BMT@fiscal.treasury.gov)

#### **Contact the TCMM Operations Team at:**

TCMM Treasury Support Center  
Federal Reserve Bank of St. Louis  
1421 Dr. Martin Luther King Drive  
St. Louis, MO 63016-3716  
Telephone: 888-568-7343, option 2  
Fax: 866-707-6574

For information describing acceptable collateral and its valuation, see the [TreasuryDirect](#) website.

For information on collateral policy, see the [Treasury Collateral Management and Monitoring](#) website.