



MEMORANDUM
Department of the Treasury
Bureau of the Public Debt
Office of Public Debt Accounting

October 2, 2002

MEMORANDUM FOR AGENCY CERTIFIED FINANCIAL OFFICERS

FROM: Susan L. Chapman, Director *Susan L. Chapman*
Division of Federal Investments

SUBJECT: Business Rules for Federal Investment Reporting – FY 03

We are writing to inform you of some changes that will affect Fiscal Year 2003 financial reporting of investments in Treasury Securities held by Federal Agencies. To provide standardization in processing and recording intra-governmental transactions, the Office of Management and Budget (OMB) will soon finalize “Business Rules for Fiduciary Transactions”. Accordingly, the Bureau of the Public Debt (BPD) will incorporate those business rules applicable to the Federal Investment Program into daily and financial accounting operations. We want to provide you with advance notice of these changes due to their impact on your agency’s investment reporting as a trading partner with BPD.

Amortization and inventory relief methods are major impediments to the elimination of the intra-governmental portion of investments held by Federal Agencies. Accounting standards that apply to these transactions are inconsistent for assets and liabilities, and are frequently contradicted by the reporting agencies. The following items are included in the business rules and specifically prescribe the accounting treatment for federal investments. It is imperative that you, as our trading partner, apply the same accounting treatment so that our activity and balances will eliminate in the Federal Agency Centralized Trial Balance System (FACTS) for FY03.

Amortization Method

BPD will change amortization methods for market-based notes and bonds. These securities were amortized by BPD on the straight-line method through September 30, 2002. Beginning October 1, 2002, we now amortize market-based notes and bonds using the level-yield, scientific method of effective interest amortization. Our amortization is reported in Standard General Ledger account (SGL) 2530 and should match agencies’ reporting in SGL’s 1610-1613. Agencies should amortize discount and premiums on the effective interest method to properly eliminate with BPD.

For agencies that reflect the market value of securities held, adjustments to amortized cost should be reported in SGL 1618, Market Adjustment-Investments. BPD will not eliminate against SGL 1618.

BPD will amortize securities issued at a **premium** with a callable feature to call date rather than maturity date. Most agencies already amortize to the call date. This is now a requirement for securities purchased at a premium only.

Inventory Method

Beginning January 1, 2003, new rules apply to market-based securities redeemed prior to the stated maturity date. We will require agencies to identify the default inventory relief method, i.e., First-in, First-Out (FIFO), or specifically identify securities (tax lots) to be relieved. If the securities are not specifically identified then BPD will use the FIFO method.

In order to match our existing securities inventories with agencies that have historically used methods other than FIFO, agencies must reconcile their securities inventory with us no later than December 31, 2002. Please fax or email a copy of your securities inventory at the purchase date level to us at:

**Email: fedinvestor@bpd.treas.gov
Fax: (304) 480-5212, Attn: Ann Fallon**

Please be sure to include the name and phone number of someone that we can contact.

If your agency needs assistance implementing the business rules, we can help. We now offer additional services including SF 224 investment reporting, detailed accrual and amortization reports, and SGL reporting. To find out more about these services, contact us at (304) 480-5151. You should ask for Ann Fallon, Manager, Federal Investments Branch.

We appreciate your continued cooperation, and I know you share our concern for achieving the proper elimination of intra-governmental investment activities. Resolving this problem remains a difficult challenge and will require the commitment of all of us. Please don't hesitate to contact me if you have any questions or concerns about BPD's accounting changes or the business rules implementation in FY03. I can be reached at (304) 480-5111.