

the subscription is for more than \$10 million, BPD must receive the subscription at least seven days before the issue date.

(b) *How do I start the subscription process?* A subscriber starts the subscription process by entering into SLGSafe the following information:

- (1) The issue date;
- (2) The total principal amount;
- (3) The issuer's name and Taxpayer Identification Number;
- (4) The title of an official authorized to purchase SLGS securities;
- (5) A description of the tax-exempt bond issue; and
- (6) The certification required by §344.2(e)(1), if the subscription is submitted by an agent of the issuer.

(c) *Under what circumstances can I cancel a subscription?* You cannot cancel a subscription unless you establish, to the satisfaction of Treasury, that the cancellation is required for reasons unrelated to the use of the SLGS program to create a cost-free option.

(d) *How do I change a subscription?* You can change a subscription on or before 3 p.m., Eastern time, on the issue date. You may change the aggregate principal amount specified in the subscription by no more than ten percent, above or below the amount originally specified in the subscription.

(e) *How do I complete the subscription process?* The subscription must:

- (1) Be dated and submitted electronically by an official authorized to make the purchase;
- (2) Include the certifications required by §344.2(e)(2)(i) (relating to yield); and
- (3) Include the information required under paragraph (b) of this section, if not already provided.

§ 344.9 How do I redeem a Demand Deposit security?

(a) *When must I notify BPD to redeem a security?* A Demand Deposit security can be redeemed at the owner's option, if BPD receives a request for redemption not less than:

- (1) One business day before the requested redemption date for redemptions of \$10 million or less; and
- (2) Three business days before the requested redemption date for redemptions of more than \$10 million.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any amount. If your account balance is less than \$1,000, it must be redeemed in total.

(c) *Do I have to submit a request for redemption?* Yes. An official authorized to redeem the securities must submit an electronic request through SLGSafe. The request must show the Taxpayer Identification Number of the issuer, the security number, and the dollar amount of the securities to be redeemed. BPD must receive the request by 3 p.m., Eastern time on the required day. You cannot cancel the request.

Subpart D—Special Zero Interest Securities

SOURCE: 70 FR 37911, June 30, 2005, unless otherwise noted.

§ 344.10 What are Special Zero Interest securities?

Special zero interest securities were issued as certificates of indebtedness and notes. The provisions of subpart B of this part (Time Deposit securities) apply except as specified in Subpart D of this part. Special Zero Interest securities were discontinued on October 28, 1996. The only zero interest securities available after October 28, 1996, are zero interest Time Deposit securities that are subject to subpart B of this part.

§ 344.11 How do I redeem a Special Zero Interest Security before maturity?

Follow the provisions of §344.6(a) through (g), except that no market charge or penalty will apply when you redeem a special zero interest security before maturity.

APPENDIX A TO PART 344—EARLY REDEMPTION MARKET CHARGE FORMULAS AND EXAMPLES FOR SUBSCRIPTIONS FROM DECEMBER 28, 1976, THROUGH OCTOBER 27, 1996

(a) The amount of the market charge for bonds and notes subscribed for before October 28, 1996 can be determined by the following formula:

$$M = \frac{\left(\frac{b}{2}\right) \times \left(\frac{r}{s}\right) + \left(\frac{b}{2}\right) a_{n|}}{1 + \left(\frac{r}{s}\right) \times \left(\frac{i}{2}\right)}$$

(Equation 1)

WHERE:	
M =	Market charge
b =	Increased annual borrowing cost (i.e., principal multiplied by the excess of the current borrowing rate for the period from redemption to original maturity of note or bond over the rate for the security)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that if the redemption date is on an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v^n =	$1/(1 + i/2)^n$ = present value of 1 due at the end of n periods (Equation 2)
$a_{n }$ =	$(1 - v^n)/(i/2) = v + v^2 + v^3 + \dots + v^n$ = present value of 1 per period for n periods (Equation 3)

(b) The application of this formula can be illustrated by the following example:

(1) Assume that a \$600,000 note is issued on July 1, 1985, to mature on July 1, 1995. Interest is payable at a rate of 8% on January 1 and July 1.

(2) Assume that the note is redeemed on February 1, 1989, and that the current bor-

rowing rate for Treasury at that time for the remaining period of 6 years and 150 days is 11%.

(3) The increased annual borrowing cost is \$18,000. $(\$600,000) \times (11\% - 8\%)$

(4) The market charge is computed as follows:

$$M = \frac{(\$18,000/2) \times (150/181) + (\$18,000/2) a_{n|}}{1 + (150/181) (.11/2)}$$

(Equation 4)

$$M = \frac{(\$7,458.56) + (\$9,000) a_{n|}}{1.045580111}$$

(Equation 5)

$$M = \frac{(\$7,458.56) + (\$9,000) \times \left[\frac{1 - \frac{1}{(1+.11/2)^{12}}}{(.11/2)} \right]}{1.045580111}$$

(Equation 6)

$$M = \frac{(\$7,458.56) + (\$9,000) (8.618517849)}{1.045580111}$$

(Equation 7)

$$M = \frac{(\$7,458.56) + (\$77,566.66)}{1.045580111}$$

(Equation 8)

$$M = \$81,318.71$$

(Equation 9)

(c) The amount of the market charge for certificates of indebtedness subscribed for before October 28, 1996 can be determined by the following formula:

$$M = \frac{(b) \left(\frac{r}{s} \right)}{1 + \frac{r}{s} (i)}$$

(Equation 10)

WHERE:	
M =	Market charge
b =	Increased borrowing cost for full period
r =	Number of days from redemption date to original maturity date
s =	Number of days in current annual period (365 or 366)
i =	Current borrowing rate expressed in decimals (discount factor)

(d) The application of this formula can be illustrated by the following example:

(1) Assume that a \$50,000 certificate of indebtedness is issued on March 1, 1987, to mature on November 1, 1987. Interest is payable at a rate of 10%.

(2) Assume that the certificate of indebtedness is redeemed on July 1, 1987, and that the current borrowing cost to Treasury for the 123-day period from July 1, 1987, to November 1, 1987, is 11.8%.

(3) The increased annual borrowing cost is \$900. $(\$50,000) \times (11.8\% - 10\%)$

(4) The market charge is computed as follows:

$$M = \frac{\$900 \left(\frac{123}{365} \right)}{1 + \left(\frac{123}{365} \right) (.118)} =$$

(Equation 11)

$$\frac{\$303.29}{1.039764384} =$$

(Equation 12)

\$291.69

(Equation 13)

APPENDIX B TO PART 344—FORMULA FOR DETERMINING REDEMPTION VALUE FOR SECURITIES SUBSCRIBED FOR AND EARLY-REDEEMED ON OR AFTER OCTOBER 28, 1996

(a) This formula results in a premium or discount to the issuer depending on whether the current Treasury borrowing rate at the time of early redemption is lower or higher

than the stated interest rate of the early-redeemed SLGS security. The total redemption value for bonds and notes can be determined by the following two steps. First, calculate accrued interest payable in accordance with §344.6(d)(1) using the following formula:

$$AI = \left[\frac{(s-r)}{s} \right] \times \left(\frac{C}{2} \right)$$

(Equation 14)

Second, calculate the redemption value per §344.6(d)(2) using the following formula:

$$RV = \frac{\left(\frac{C}{2} \right) + \left(\frac{C}{2} \right) a_{n|} + F(v^n)}{1 + \left(\frac{r}{s} \right) \times \left(\frac{i}{2} \right)} - AI$$

(Equation 15)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = [(s-r)/s] x (C/2)
r =	Number of days from redemption date to next interest payment date
s =	Number of days in current semi-annual period
i =	Treasury borrowing rate over the remaining term to maturity, based on semi-annual interest payments and expressed in decimals
C =	The regular annual interest
n =	Number of remaining full semi-annual periods from the redemption date to the original maturity date, except that, if the redemption date is an interest payment date, n will be one less than the number of full semi-annual periods remaining to maturity
v ⁿ =	1/(1 + i/2) ⁿ = present value of 1 due at the end of n periods
a _n =	(1 - v ⁿ)/(i/2) = v + v ² + v ³ + ... + v ⁿ = present value of 1 per period for n periods

(b) The application of this formula can be illustrated by the following examples:

(1) The first example is for a redemption at a premium.

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 6.25%.

(iii) The redemption value is computed as follows. First, the accrued interest payable is calculated as:

$$AI = \left(\frac{183-50}{183} \right) \times \left(\frac{\$56,000}{2} \right)$$

(Equation 16)

$$AI = \left(\frac{133}{183} \right) \times \$28,000$$

(Equation 17)

$$AI = \$20,349.73$$

(Equation 18)

$$RV = \frac{\left(\frac{\$56,000}{2} \right) + \left(\frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left(\frac{50}{183} \right) \left(\frac{.0625}{2} \right)} - AI$$

(Equation 19)

Then, the redemption value is calculated as:

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[\frac{1 - \left(\frac{1}{\left(1 + \frac{.0625}{2}\right)^2}\right)}{\left(\frac{.0625}{2}\right)} \right] + \$800,000 \left[\frac{1}{\left(1 + \frac{.0625}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0625}{2}\right)} - AI$$

(Equation 20)

$$RV = \frac{\$28,000 + (\$28,000)(1.9100092) + (\$800,000)(0.94031221)}{1.008538251} - AI$$

(Equation 21)

$$RV = \frac{\$28,000 + \$53,480.26 + \$752,249.77}{1.008538251} - AI$$

(Equation 22)

$$RV = \frac{\$833,730.03}{1.008538251} - AI$$

(Equation 23)

$$RV = \$826,671.70 - \$20,349.73$$

(Equation 24)

$$RV = \$806,321.97$$

(Equation 25)

(2) The second example is for a redemption at a discount and it uses the same assumptions as the first example, except the current Treasury borrowing cost is assumed to be 8.00%:

(i) Assume that an \$800,000 2-year note is issued on December 10, 1996, to mature on

December 10, 1998. Interest is payable at a rate of 7% on June 10 and December 10.

(ii) Assume that the note is redeemed on October 21, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 1 year and 50 days is 8.00%.

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(iii) The redemption value is computed as follows.

Then, the redemption value is calculated as:

First, the accrued interest payable is calculated as:

$$AI = \left(\frac{183 - 50}{183} \right) \times \left(\frac{\$56,000}{2} \right)$$

(Equation 26)

$$AI = \left(\frac{133}{183} \right) \times \$28,000$$

(Equation 27)

$$AI = \$20,349.73$$

(Equation 28)

$$RV = \frac{\left(\frac{\$56,000}{2} \right) + \left(\frac{\$56,000}{2} \right) a_{n|} + \$800,000v^n}{1 + \left(\frac{50}{183} \right) \left(\frac{.0800}{2} \right)} - AI$$

(Equation 29)

$$RV = \frac{\left(\frac{\$56,000}{2}\right) + \left(\frac{\$56,000}{2}\right) \left[\frac{1 - \left(\frac{1}{\left(1 + \frac{.0800}{2}\right)^2}\right)}{\left(\frac{.0800}{2}\right)} \right] + \$800,000 \left[\frac{1}{\left(1 + \frac{.0800}{2}\right)^2} \right]}{1 + \left(\frac{50}{183}\right) \times \left(\frac{.0800}{2}\right)} - AI$$

(Equation 30)

$$RV = \frac{\$28,000 + (\$28,000)(1.8860947) + (\$800,000)(0.92455621)}{1.010928962} - AI$$

(Equation 31)

$$RV = \frac{\$28,000 + \$52,810.65 + \$739,644.97}{1.010928962} - AI$$

(Equation 32)

$$RV = \frac{\$820,455.62}{1.010928962} - AI$$

(Equation 33)

$$RV = \$811,585.83 - \$20,349.73$$

(Equation 34)

$$RV = \$791,236.10$$

(Equation 35)

(c) The total redemption value for certificates of indebtedness can be determined by the following two steps. First, calculate accrued interest payable in accordance with §344.6(d)(1) using the following formula:

Second, calculate the redemption value per §344.6(d)(2) using the following equation:

$$AI = \left[\frac{(d-r)}{Y} \right] \times C$$

(Equation 36)

$$RV = \frac{\left(\frac{d}{y}\right) \times (C) + F}{1 + \left(\frac{r}{y}\right) \times (i)} - AI$$

(Equation 37)

WHERE:	
RV =	Redemption value
F =	Face amount redeemed
AI =	Accrued interest = $[(d-r)/y] \times C$
d =	Number of days from original issue of the certificate of indebtedness to its maturity date
r =	Number of days from redemption date to the certificate of indebtedness' maturity date
y =	365, if the number of days in the year following issue of the certificate of indebtedness does not include a leap year day; 366, if the number of days following issue of the certificate of indebtedness does include a leap year day
i =	Treasury borrowing rate over the remaining term to maturity, expressed in decimals
C =	The regular annual interest

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(d) The application of this formula can be illustrated by the following examples.

(1) First, for a redemption at a premium:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current borrowing rate for Treasury at that time for the remaining period of 26 days is 4.00%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

Then, the redemption value is calculated as:

$$AI = \left(\frac{151 - 26}{365} \right) \times \$15,000$$

(Equation 38)

$$AI = \left(\frac{125}{365} \right) \times \$15,000$$

(Equation 39)

$$AI = \$5,136.99$$

(Equation 40)

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0400)} - AI$$

(Equation 41)

$$RV = \frac{\$6,205.48 + \$300,000}{1.002849315} - AI$$

(Equation 42)

$$RV = \frac{\$306,205.48}{1.002849315} - AI$$

(Equation 43)

$$RV = \$305,335.48 - \$5,136.99$$

(Equation 44)

$$RV = \$300,198.49$$

(Equation 45)

(2) Secondly, for a redemption at a discount:

(i) Assume that a \$300,000 security is issued on December 5, 1996, to mature in 151 days on May 5, 1997. Interest at a rate of 5% is payable at maturity.

(ii) Assume that the security is redeemed on April 9, 1997, and that the current bor-

rowing rate for Treasury at that time for the remaining period of 26 days is 6.25%.

(iii) The redemption value is computed as follows.

First, the accrued interest payable is calculated as:

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$$AI = \left(\frac{151 - 26}{365} \right) \times \$15,000$$

Then, the redemption value is calculated
as:

(Equation 46)

$$AI = \left(\frac{125}{365} \right) \times \$15,000$$

(Equation 47)

$$AI = \$5,136.99$$

(Equation 48)

$$RV = \frac{\left(\frac{151}{365}\right) \times \$15,000 + \$300,000}{1 + \left(\frac{26}{365}\right)(.0625)} - AI$$

(Equation 49)

$$RV = \frac{\$6,205.48 + \$300,000}{1.004452055} - AI$$

(Equation 50)

$$RV = \frac{\$306,205.48}{1.004452055} - AI$$

(Equation 51)

$$RV = \$304,848.28 - \$5,136.99$$

(Equation 52)

$$RV = \$299,711.29$$

(Equation 53)