

(ii) To the extent set forth in any specific agreement with the Federal Reserve Bank on whose books the interest of the Participant is recorded.

(2) *May a security interest be created and perfected by a Federal Reserve Bank marking its books?* Yes, a security interest in a Security Entitlement that is in favor of a Federal Reserve Bank or a Person may be created and perfected by a Federal Reserve Bank marking its books to record the security interest to the extent required by law, regulation, or an agreement with a Federal Reserve Bank or the Federal Reserve Bank Operating Circular.

(3) *Does this security interest have priority over other interests?* A security interest in a Security Entitlement marked on the books of a Federal Reserve Bank has priority over any other interest in the securities, except a security in favor of the United States, as provided in table (b) of this section.

(4) *In addition to the method provided in paragraph (e)(2) of this section, may a security interest, including a security interest in favor of a Federal Reserve Bank, be perfected in another way?* Yes, a security interest may be perfected by any method under applicable law as described in §357.10(b) or §357.11.

(i) The applicable law governs the perfection, effect of perfection or non-perfection and priority of a security interest.

(ii) A security interest in favor of a Federal Reserve Bank shall be treated as a security interest in favor of a clearing corporation in all respects under that law.

(iii) A Federal Reserve Bank Operating Circular shall be treated as a rule adopted by a clearing corporation for these purposes.

**§ 357.13 Obligations of the United States and the Federal Reserve Banks with respect to Book-entry Securities and security interests.**

(a) *Who is entitled to deal with an interest in a Book-entry Security that has been credited to a Participant's Security Account?* Except in the case of a security interest in favor of the United States or a Federal Reserve Bank or otherwise as provided in §357.12 (e), for the purposes of this subpart B, the United States and the Federal Reserve

Banks treat the Participant as exclusively entitled to perform the following functions, even if the Treasury or a Federal Reserve Bank has any information or notice to the contrary:

(1) Issue a Transfer Message,

(2) Receive interest and other payments with respect thereof, and

(3) Exercise all the rights and powers with respect to the Security,

(b) *Are the Federal Reserve Banks and Treasury liable for Adverse Claims?* The Federal Reserve Banks and Treasury are not liable to a Person asserting or having an Adverse Claim to a Security Entitlement or to a Book-entry Security in a Participant's Securities Account. This includes any such claim arising as a result of the transfer or disposition of a Book-entry Security by a Federal Reserve Bank, pursuant to a Transfer Message that the Federal Reserve Bank reasonably believes to be genuine.

(c) *When is the obligation of the United States to pay interest and principal with respect to Book-entry Securities discharged?* The obligation is discharged once payment is made as follows:

(1) A Federal Reserve Bank credits the appropriate amount of interest on Book-entry Securities to a Funds Account maintained at the Bank, or pays it as directed by the Participant.

(2) Book-entry Securities are redeemed according to their terms, a Federal Reserve Bank withdraws the securities from the Participant's Securities Account in which they are maintained, and either:

(i) Credits the amount of the Redemption proceeds, including both principal and interest, where applicable, to a Funds Account at the Bank, or

(ii) Pays such principal and interest as directed by the Participant.

(d) *What does a Participant need to do in connection with the Redemption of a Book-entry Security?* No action by the Participant is required.

**§ 357.14 What authority does a Federal Reserve Bank have?**

(a) Each Federal Reserve Bank has the authority as fiscal agent of the United States to:

(1) Perform functions with respect to the issuance of Book-entry Securities offered and sold by the Department to