

CM 198

# FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10048

AREA CODE 212 781-5000

January 22, 1985

Memorandum to Institutions Maintaining  
Direct Wire Facilities with the Federal Reserve  
Bank of New York for Securities Transfers

SUBJECT:        Treasury Stripped Securities in Book-Entry Form

As detailed in the enclosed Treasury announcement, the Treasury Department will implement a program to facilitate the Separate Trading of Registered Interest and Principal of Securities (STRIPS). This program will become effective in conjunction with the February 15, 1985 Treasury Department Quarterly Financing.

The following outlines the book-entry procedures associated with the implementation of the STRIPS program:

I. CUSIP Numbers/Security Description

Under the STRIPS Program, the principal component (TPRN, or TCAL if the security is callable) and the semi-annual interest components (TINTS) will be assigned separate CUSIP numbers. New CUSIP roots (which are outlined in the Treasury announcement) have been established for STRIP securities.

New security descriptions have been developed for STRIPS, and these descriptions include the new four letter mnemonics of TINT, TPRN or TCAL. The new security descriptions are also outlined in the attachment, "CUSIP Roots/Loan Titles/Descriptions".

II. Original Issue

The Treasury will not be issuing STRIPS directly on original issue. Thus, the auction and disbursement of original issues will occur in accordance with current procedures.

III. Conversion into STRIPS

Effective on the original issue date, eligible securities may be converted into STRIPS at the option of the depository institution (DI) in whose account the securities are maintained. It should be noted that in the event of a long or short initial interest payment, the security cannot be stripped until after the first interest payment is made. In addition, if the eligible security has a call option, the interest payments that fall due between the callable period and the maturity date cannot be separated from the corpus (TCAL).

- A. To initiate a conversion, the DI must send a type code 20 message to FRB NYC/STRIP, for the particular security.
1. This message must comply with the minimum and multiple requirements established for STRIPS conversions for that coupon rate. (These are outlined in the enclosed Treasury announcement.)
  2. The FRB NYC/STRIP account is to be used solely for STRIPS conversions.
  3. The closing time for STRIPS conversion requests will be 10:30 a.m.
- B. The FRBNY will return, via type code 20, the TCAL or TPRN, and the appropriate number of TINTS, from FRB NYC/STRIP. All stripped securities messages will be returned to the exact telegraphic due from description that appeared on the original wire. Therefore, DI's may wish to include additional text on Line 4 after the third party name in order to control the matching of the returned corpus and TINTS.
- C. Registered securities must first be converted into book-entry form before they can be stripped. Conversions of registered securities to book-entry form will be made according to current registered to book-entry conversion procedures.

NOTE: As indicated in the enclosure, the Treasury plans to make available the reconstitution of stripped securities at some future date.

#### IV. Transfer

The new securities (TCAL or TPRN and TINTS) will be eligible for both intra and inter-district transfer, in minimum and multiples of \$1,000.

#### V. Maturity Payments

All TPRN, TCAL and TINT payments will be made via type code 89, as is the current practice.

NOTE: The semi-annual interest payment (TINT) will be processed as a maturing security.

CM 198

# FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045

AREA CODE 212 761-5000

January 22, 1985

Memorandum to Institutions Maintaining  
Direct Wire Facilities with the Federal Reserve  
Bank of New York for Securities Transfers

**SUBJECT:** Treasury Stripped Securities in Book-Entry Form

As detailed in the enclosed Treasury announcement, the Treasury Department will implement a program to facilitate the Separate Trading of Registered Interest and Principal of Securities (STRIPS). This program will become effective in conjunction with the February 15, 1985 Treasury Department Quarterly Financing.

The following outlines the book-entry procedures associated with the implementation of the STRIPS program:

I. CUSIP Numbers/Security Description

Under the STRIPS Program, the principal component (TPRN, or TCAL if the security is callable) and the semi-annual interest components (TINTS) will be assigned separate CUSIP numbers. New CUSIP roots (which are outlined in the Treasury announcement) have been established for STRIP securities.

New security descriptions have been developed for STRIPS, and these descriptions include the new four letter mnemonics of TINT, TPRN or TCAL. The new security descriptions are also outlined in the attachment, "CUSIP Roots/Loan Titles/Descriptions".

II. Original Issue

The Treasury will not be issuing STRIPS directly on original issue. Thus, the auction and disbursement of original issues will occur in accordance with current procedures.

III. Conversion into STRIPS

Effective on the original issue date, eligible securities may be converted into STRIPS at the option of the depository institution (DI) in whose account the securities are maintained. It should be noted that in the event of a long or short initial interest payment, the security cannot be stripped until after the first interest payment is made. In addition, if the eligible security has a call option, the interest payments that fall due between the callable period and the maturity date cannot be separated from the corpus (TCAL).

- A. To initiate a conversion, the DI must send a type code 20 message to FRB NYC/STRIP, for the particular security.
1. This message must comply with the minimum and multiple requirements established for STRIPS conversions for that coupon rate. (These are outlined in the enclosed Treasury announcement.)
  2. The FRB NYC/STRIP account is to be used solely for STRIPS conversions.
  3. The closing time for STRIPS conversion requests will be 10:30 a.m.
- B. The FRBNY will return, via type code 20, the TCAL or TPRN, and the appropriate number of TINTS, from FRB NYC/STRIP. All stripped securities messages will be returned to the exact telegraphic due from description that appeared on the original wire. Therefore, DI's may wish to include additional text on Line 4 after the third party name in order to control the matching of the returned corpus and TINTS.
- C. Registered securities must first be converted into book-entry form before they can be stripped. Conversions of registered securities to book-entry form will be made according to current registered to book-entry conversion procedures.

NOTE: As indicated in the enclosure, the Treasury plans to make available the reconstitution of stripped securities at some future date.

#### IV. Transfer

The new securities (TCAL or TPRN and TINTS) will be eligible for both intra and inter-district transfer, in minimum and multiples of \$1,000.

#### V. Maturity Payments

All TPRN, TCAL and TINT payments will be made via type ' code 89, as is the current practice.

NOTE: The semi-annual interest payment (TINT) will be processed as a maturing security.

### Eligible Institutions

Q. Who will be able to request the separation of a security into STRIPS form?

A. Depository institutions with book-entry securities accounts at Federal Reserve Banks will be able to request that their own securities and those of their customers that hold book-entry securities through these institutions be converted into STRIPS form.

Q. Will an individual be able to buy a single interest or principal component directly from the Treasury?

A. No. The STRIPS program is designed to facilitate the stripping of Treasury securities by private market participants. Individuals and other investors will be able to hold stripped interest or principal components through a private broker or financial institution that is directly or indirectly linked to the book-entry accounts maintained at Federal Reserve Banks.

Q. Will foreigners be allowed to hold STRIPS?

A. Yes. Foreigners, like U.S. investors, will be able to hold STRIPS through financial institutions. Foreign financial institutions will be able to hold STRIPS through a depository institution with a book-entry securities account at a Federal Reserve Bank.

### Procedures

Q. What will be the procedures for a depository institution to obtain STRIPS?

A. Along with the auction results of a note or bond eligible for stripping, the Treasury will announce the minimum amount of the security required in order to hold the security in separate component parts. This amount is a function of the interest rate and is chosen so that payments can be further divided for trading purposes into even \$1,000 (final payment value) amounts. (See attached table.) To obtain STRIPS, an institution must have the minimum amount specified for a particular issue, or an integral multiple of that amount.

The table shows that a security with a 12 percent interest rate requires a minimum amount (par value) of \$50,000 in order to result in interest components in even \$1,000 amounts. That is, a holder of \$50,000 par amount of Treasury securities could convert them at a Federal Reserve Bank for STRIPS obtaining separate interest components of \$3,000. The holder could then transfer to others on the book-entry system any of the separate \$3,000 semiannual interest components, or he could transfer amounts as small as \$1,000. As another example, an 11-7/8 percent interest rate requires a minimum exchange of \$320,000, which would produce interest payments of \$19,000. These could then be sold separately as a \$19,000 interest component or as 19 separate

A. Discount income on STRIPS from bonds issued after July 18, 1984, is eligible for the portfolio interest exemption from the 30 percent tax on interest paid to foreign persons if the requirements for portfolio interest are satisfied with respect to STRIPS held by a foreign person. Thus, for example, the foreign beneficial owner must be identified by name. In addition, other applicable conditions for portfolio interest specified in regulations must be satisfied.