

Separate Trading of Registered Interest and Principal Securities (STRIPS)

Banks can strip eligible Government Securities held under the AFS or FVTPL (including HFT) categories of their investment portfolio. STRIPS shall be valued and accounted for as zero-coupon bonds and in the manner prescribed in these Directions.

2. The discount rates used for valuation of STRIPS at inception shall be market-based. However, in case traded zero-coupon rates are not available, the zero-coupon yields published by FBIL shall be used instead.

3. On the day of stripping, the STRIPS shall be recognised in the books of account of the participant at their discounted value and at the same time, the Government Security in question shall be derecognised. The accounting treatment for reconstitution shall be exactly the opposite of stripping.

4. The stripping/reconstitution shall not result in any profit or loss. The present value of the STRIPS (coupon as well as principal) discounted using the Zero Coupon Yield Curve (ZCYC) shall be normalized using a factor that will be the ratio of the carrying value of the security or market value of the security (whichever is lower) to the sum total of the market value of all STRIPS created out of the security.

5. Normalisation shall also be applied in the case of reconstitution (even when STRIPS are acquired from the market).

6. The book value of the STRIPS (ZCBs) shall be valued and marked to market as per these Directions. Accordingly, the book value of the STRIPS shall be marked up to the extent of accrued interest before MTM.