

Separate Trading of Registered Interest and Principal Securities (STRIPS)

Accounting and Valuation

1. STRIPS shall be valued and accounted for as zero coupon bonds and in the manner prescribed in 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. Accounting entries in the SGL accounts as a consequence of stripping/reconstitution, shall be passed at the face value. SGL account of participant placing request for stripping shall be debited by the face value of the Government Security, and shall be simultaneously credited with the aggregate face value of Coupon STRIPS (equal to the aggregate coupon amounts) as well as the face value of Principal STRIPS (equal to the face value of the government security)¹³.

4. 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. The detailed procedure for accounting of STRIPS is given below.

4.1 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 book value or market value of the security (whichever is lower) to the sum total of the market value of all STRIPS created out of the security¹⁴.

4.2 Banks can strip eligible Government Securities held under the AFS/HFT category of their investment portfolio.

¹³ Reference is invited to illustration given in Annex 3 of [circular no. IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010](#) on Guidelines on Stripping/Reconstitution of Government Securities.

¹⁴ Reference is invited to illustration given in Annex 4 of [circular no. IDMD.DOD.07/11.01.09/2009-10 dated March 25, 2010](#) on Guidelines on Stripping/Reconstitution of Government Securities.

4.3 In case STRIPS are created from securities held in the HTM portfolio, the securities shall be transferred from the HTM category to the AFS/HFT category as per the these Directions. Thereafter, the lower of the book value/market value shall be used for normalizing the market value of individual STRIPS to the book value/market value. Post-stripping, the book value/market value of the existing securities shall be derecognized and replaced by the normalized value of STRIPS whose sum total shall exactly equal the book value/market value of the extinguished security (thereby ensuring that there is no profit or loss on account of stripping). Any appreciation, arising due to the shifting of the security from HTM shall be ignored. The same methodology shall be followed for securities that are stripped from the AFS/HFT portfolio.

4.4 (i) Before a security is stripped, it shall be marked to market. Appreciation, if any, shall be ignored and depreciation, if any, shall be recognised, if the market value is lower than the book value. Such depreciation shall not be aggregated for the purpose of arriving at net depreciation/appreciation of investment under the AFS/HFT category. The book value/ market value of the security, whichever is lower, shall be used to normalise the STRIPS.

(ii) The Normalisation principle, on stripping/reconstitution shall be applied on the clean price of the security (without considering the accrued interest) as the accrued interest is booked as income/expenditure.

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

(iv) 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.