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NOTIFICATION

Mumbai, October 16, 2009

Government Securities –
Separate Trading of Registered Interest and Principal of Securities (STRIPS)

IDMD.1762/2009-10

In exercise of the powers conferred vide explanation to section 11(2) of the Government Securities Act, 2006 read with section 2(i) of the Act, *ibid*, the Reserve Bank of India hereby notifies that stripping/reconstitution of Government securities shall be subject to the terms and conditions specified herein:

I. Definitions

- a) "STRIPS" (Separate Trading of Registered Interest and Principal of Securities) are distinct, separate securities that are created from the cash flows of a Government security and shall consist of –
- (i) Coupon STRIPS, where the single cash flow of the STRIP represents a coupon flow of the original security
 - (ii) Principal STRIP, where the single cash flow of the STRIP represents the principal cash flow of the original security.
- Explanation:* Stripping of a security shall result in Coupon STRIPS for all outstanding coupon payments and one Principal STRIP for the redemption payment. Each STRIP accordingly becomes a zero coupon bond since it has only one cash flow at maturity. Each STRIP shall be a distinct Government security and shall have a separate and distinct International Securities Identification Number (ISIN).
- b) "Stripping" means the process of separating the cash flows associated with a regular Government security i.e., each outstanding semi-annual coupon payment and the final principal payment into separate securities.
- c) "Reconstitution" means the reverse process of stripping, where the individual STRIPS i.e., both coupon STRIPS and Principal STRIPS are reassembled to get back the original security.
- d) "Authorized entity" means a Primary Dealer or any other entity recognized by the RBI to accept requests from the holders of Government securities for stripping/reconstitution of the securities and submission to the RBI.

II. Terms and Conditions for STRIPS

1. The process of stripping/reconstitution of Government securities shall be carried out at RBI, Public Debt Office in the PDO-NDS (Negotiated Dealing System).
2. All dated Government securities other than floating rate bonds having coupon payment dates on 2nd January and 2nd July, irrespective of the year of maturity shall be eligible for Stripping/Reconstitution.
3. All Coupon STRIPS with the same maturity date shall have the same ISIN, regardless of the underlying security from which the interest payments were stripped, and coupon STRIPS of the same cash flow shall be fungible (interchangeable). The ISIN of Coupon STRIPS shall be different from the ISIN of Principal STRIPS, even if they have the same maturity date, and shall not be fungible.
4. Stripping/reconstitution may be done at the option of the holder at any time from the date of issuance of a Government security till its maturity.
5. Stripping/reconstitution shall be permitted only in the eligible Government securities held in the Subsidiary General Leger (SGL)/Constituent Subsidiary General Ledger (CSGL) accounts maintained at the Public Debt Office, RBI, Mumbai. Physical securities shall not be eligible for stripping/reconstitution.
6. Holders of Government securities shall place their requests for stripping/reconstitution only with an "Authorized entity".
7. Reserve Bank will not charge any fees on stripping/reconstitution.
8. The amount of securities that could be tendered for stripping/reconstitution shall be a minimum of Rs.1 crore and multiples thereof.
9. These terms and conditions shall come into effect from the date of this Notification.

Sd/-

(H R Khan)
Executive Director
Reserve Bank of India