

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. **10,067** ]  
August 6, 1986 ]

**Methodology for Collateral Security  
Valuations of STRIPS Components**

*To All Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

The following statement was issued by the Treasury Department:

The Department of the Treasury has announced the methodology it will use for determining component values of STRIPS (Separate Trading of Registered Interest and Principal of Securities) when they become eligible as collateral for Treasury Tax and Loan Depositories as defined in 31 CFR 203.

The method for determining component values will be Treasury's "lost bond program," which is used to find the present value of a zero-coupon instrument that is consistent with a given par value yield curve. This is the same method used for valuing STRIPS components for broker reporting purposes in Internal Revenue Service Publication 1212.

Prior to the expected early 1987 effective date for eligibility, Treasury instructions governing collateral security will be amended to provide that STRIPS components with a remaining period to maturity of one year or less will be accepted at par, and that amounts of STRIPS components maturing beyond one year will be taken on the basis of authorized valuation rates issued by Treasury every three months (or more frequently, if needed).

The changes that need to be made to the Federal Reserve Banks' automated systems are in progress and are expected to be completed in time for an implementation date early in calendar year 1987.

The Department will make a public announcement of the effective date for the availability of STRIPS components as collateral after the necessary system modifications are completed.

Questions about the methodology for the valuation of STRIPS components should be referred to the Bureau of the Public Debt's Office of Financing in Washington, D.C., (202) 376-4350, or to your local Federal Reserve office.

At this Bank, questions on this matter may be directed to Janet K. Rogers, Manager, Accounting Department (Tel. No. 212-791-5228), or James P. Wallace, Chief, Accounting Operations Division (Tel. No. 212-791-6569).

E. GERALD CORRIGAN,  
*President.*