

Treasury STRIPS

12. Are interest-only and principal-only STRIPS of notes and bonds issued by the U.S. Treasury considered “obligations of, or issued or guaranteed by, the United States” under 12 CFR 351.6(a)(1) of the final rule implementing section 13 of the BHC Act? Is the same true for securities reconstituted from STRIPS of U.S. Treasury notes or bonds?

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Yes. Under the Department of the Treasury’s Separate Trading of Registered Interest and Principal of Securities program, eligible Treasury securities are authorized to be separated into principal and interest components and transferred separately.¹ These separate principal and interest components are also referred to as “STRIPS.” Like the fully constituted security, payments of principal and interest under these STRIPS are backed by the full faith and credit of the United States.² Thus, the interest-only and principal-only components are obligations of, or issued or guaranteed by, the United States that would qualify for the exemption provided under § 351.6(a)(1) of the final rule implementing section 13 of the BHC Act.

In addition, Treasury regulations allow financial institutions and government securities brokers or dealers to reassemble corresponding STRIPS into their fully constituted form.³ This reconstituted security is also an obligation of, or issued or guaranteed by, the United States under § 351.6(a)(1) of the final rule.

¹ 31 CFR 356.4

² See 51 Fed. Reg. 29085, 29088–89 (Aug. 14, 1986) (OCC interpretive ruling citing Memorandum from Walter T. Eccard, Assistant General Counsel for Banking and Finance, Department of the Treasury, to Jordan Luke, Deputy Chief Counsel (Policy), OCC (May 29, 1986)); *accord* Call Report Glossary, at A-14b (Dec 2014) (“Even after the interest or principal portions of U.S. Treasury STRIPS have been separately traded, they remain obligations of the U.S. Government.”).

³ 31 CFR 356.31(d); see also <http://www.treasurydirect.gov/instit/marketablestrips/strips.htm>.