§ 356.31 How does the STRIPS program work?

(a) General. Notes or bonds may be “stripped”—divided into separate principal and interest components. These components must be maintained in the commercial book-entry system. Stripping is done at the option of the holder, and may occur at any time from issuance until maturity. We provide the CUSIP numbers and payment dates for the principal and interest components in auction announcements and on our Web site at http://www.treasurydirect.gov.

(b) Treasury fixed-principal securities (notes and bonds other than Treasury inflation-protected securities)—

(1) Minimum par amounts required for STRIPS. The minimum par amount of a fixed-principal security that may be stripped is $100. Any par amount to be stripped above $100 must be in a multiple of $100.

(2) Principal components. Principal components stripped from fixed-principal securities are maintained in accounts, and transferred, at their par amount. They have a CUSIP number that is different from the CUSIP number of the fully constituted (unstripped) security.

(3) Interest components. Interest components stripped from fixed-principal securities have the following features:

(i) They are maintained in accounts, and transferred, at their original payment value, which is derived by multiplying the semiannual interest rate and the par amount;

(ii) Their interest payment date becomes the maturity date for the component;

(iii) All interest components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped, and therefore are fungible (interchangeable).

(iv) the CUSIP numbers of interest components are different from the CUSIP numbers of principal components and fully constituted securities,
even if they have the same maturity
date, and therefore are not fungible.

(c) Treasury inflation-protected securi-
ties—(1) Minimum par amounts required
for STRIPS. The minimum par amount
of an inflation-protected security that
may be stripped is $100. Any par
amount to be stripped above $100 must
be in a multiple of $100.

(2) Principal components. Principal
components stripped from inflation-
protected securities are maintained in
accounts, and transferred, at their par
amount. At maturity, the holder will
receive the inflation-adjusted principal
or the par amount, whichever is great-
er. (See §356.30.) A principal component
has a CUSIP number that is different
from the CUSIP number of the fully
constituted (unstripped) security.

(3) Interest components—(i) Adjusted
value. Interest components stripped
from inflation-protected securities are
maintained in accounts, and trans-
ferred, at their adjusted value. This
value is derived by multiplying the
semiannual interest rate by the par
amount and then multiplying this
value by: 100 divided by the Reference
CPI of the original issue date. (The
dated date is used instead of the origi-
nal issue date when the dates are dif-
ferrnt.) See appendix B, section IV of
this part for an example of how to do
this calculation.

(ii) CUSIP numbers. When an interest
payment is stripped from an inflation-
protected security, the interest pay-
ment date becomes the maturity date
for the component. All interest compo-
nents with the same maturity date
have the same CUSIP number, regard-
less of the underlying security from
which the interest payments were
stripped. Such interest components are
fungible (interchangeable). The CUSIP
numbers of interest components are
different from the CUSIP numbers of
principal components and fully con-
stituted securities, even if they have
the same maturity date.

(iii) Payment at maturity. At matur-
ity, the payment to the holder will be
derived by multiplying the adjusted
value of the interest component by the
Reference CPI of the maturity date, di-
vided by 100. See appendix B, section IV
of this part for an example of how to do
this calculation.

(iv) Rebasings of the CPI. If the CPI is
rebased to a different time base ref-
erence period (See appendix D.), the ad-
justed values of all outstanding infla-
tion-protected interest components
will be converted to adjusted values
based on the new base reference period.
At that time, we will publish informa-
tion that describes how this conversion
will occur. After rebasing, any interest
components created from a security
that was issued during a prior base re-
ference period will be issued with ad-
justed values calculated using refer-
ence CPIs under the most-recent base
reference period.

(d) Reconstituting a security. Stripped
interest and principal components may
be reconstituted, that is, put back to-
gether into their fully constituted form. A principal component and all re-
lated unmatured interest components,
in the appropriate minimum or mul-
tiple amounts or adjusted values, must
be submitted together for reconstitu-
tion. Because inflation-protected inter-
est components are different from
fixed-principal interest components,
they are not interchangeable for recon-
stitution purposes.

(e) Applicable regulations. Subparts A,
B, and D of part 357 of this chapter gov-
ern notes and bonds stripped into their
STRIPS components, unless we state
differently in this part.

[69 FR 45202, July 28, 2004, as amended at 73
FR 14939, Mar. 20, 2008; 74 FR 26086, June 1,
2009]

§ 356.32 What tax rules apply?

(a) General. Securities issued under
this part are subject to all applicable
taxes imposed under the Internal Rev-
enue Code of 1986, or its successor.
Under section 3124 of title 31, United
States Code, the securities are exempt
from taxation by a State or political
subdivision of a State, except for State
estate or inheritance taxes and other
exceptions as provided in that section.

(b) Treasury inflation-protected securi-
ties. Special federal income tax rules
for inflation-protected securities, in-
cluding stripped inflation-protected
principal and interest components, are
set forth in Internal Revenue Service
regulations.