

National Treasury
Asset and Liability Management Division



Features of RSA Strippable Bonds

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Contents

- Process followed
- What is stripping?
- Strippable bonds
- Fungibility
- Bond codes
- Process of stripping and reconstitution
- Secondary / market making
- Market information
- Legal and Regulatory environment

Process followed

- **Informal discussion with market – 2000**
- **Study of international best practice – 2000**
- **Announced plan to set up programme – February 2001**
- **Working document on STRIPS – March 2001**
- **Process and Systems Development – May/November 2001**
- **Draft National Paper on STRIPS – October 2001**
- **Launch – 29/30 November 2001**

What is Stripping?

- **Stripping**

Separating a coupon-bearing bond into its constituent interest and principal payments so that they can be separately held or traded

- **Reconstitution**

The opposite of stripping

Designated Strippable Bond Issues

- **Standard coupon bearing benchmark bonds:**
 - **R150 (12,0%; 2004/05/06)**
 - **R153 (13,0%; 2009/10/11)**
 - **R157 (13,5%; 2014/15/16)**
 - **R186 (10,5%; 2025/26/27)**
 - **R194 (10,0%; 2007/08/09)**

...Designated Strippable Bond Issues

- Inflation-linked bonds may be strippable in future
- Bonds used as source bonds in switch programme not strippable

Nominal amounts of strippable bonds - As at 31 October 2001

Bond	Nominal in Issue	Semi- annual Interest
	<u>R billion</u>	<u>R billion</u>
R150 (12,0%; 2004/05/06)	77,3	4,6
R194 (10,0%; 2007/08/09)	35,1	1,8
R153 (13,0%; 2009/10/11)	91,9	6,0
R157 (13,5%; 2014/15/16)	54,6	3,7
R186 (10,5%; 2025/26/27)	22,2	1,2

Fungibility

- **Coupon strips of strippable bonds with aligned coupon dates will be fungible**
- **Coupon and Principal strips will not be fungible**
- **Principal and principal strips will not be fungible**

Fungible Coupon Strips

- **Coupon strips of the following strippable bonds will be fungible:**
 - **R150 (12,0%; 2004/05/06)**
 - **R194 (10,0%; 2007/08/09)**
 - **R153 (13,0%; 2009/10/11)**

Coupon dates 28 February / 31 August

Bond Codes of STRIPS

- **Each STRIP will have a unique bond code**
 - **5 digit code**
 - **R identify RSA Bond**
 - **P / C identify Principal or Coupon strips**
- **ISIN numbers will be allocated to each strip bond**

Composition of Coupon Strip Bond Codes

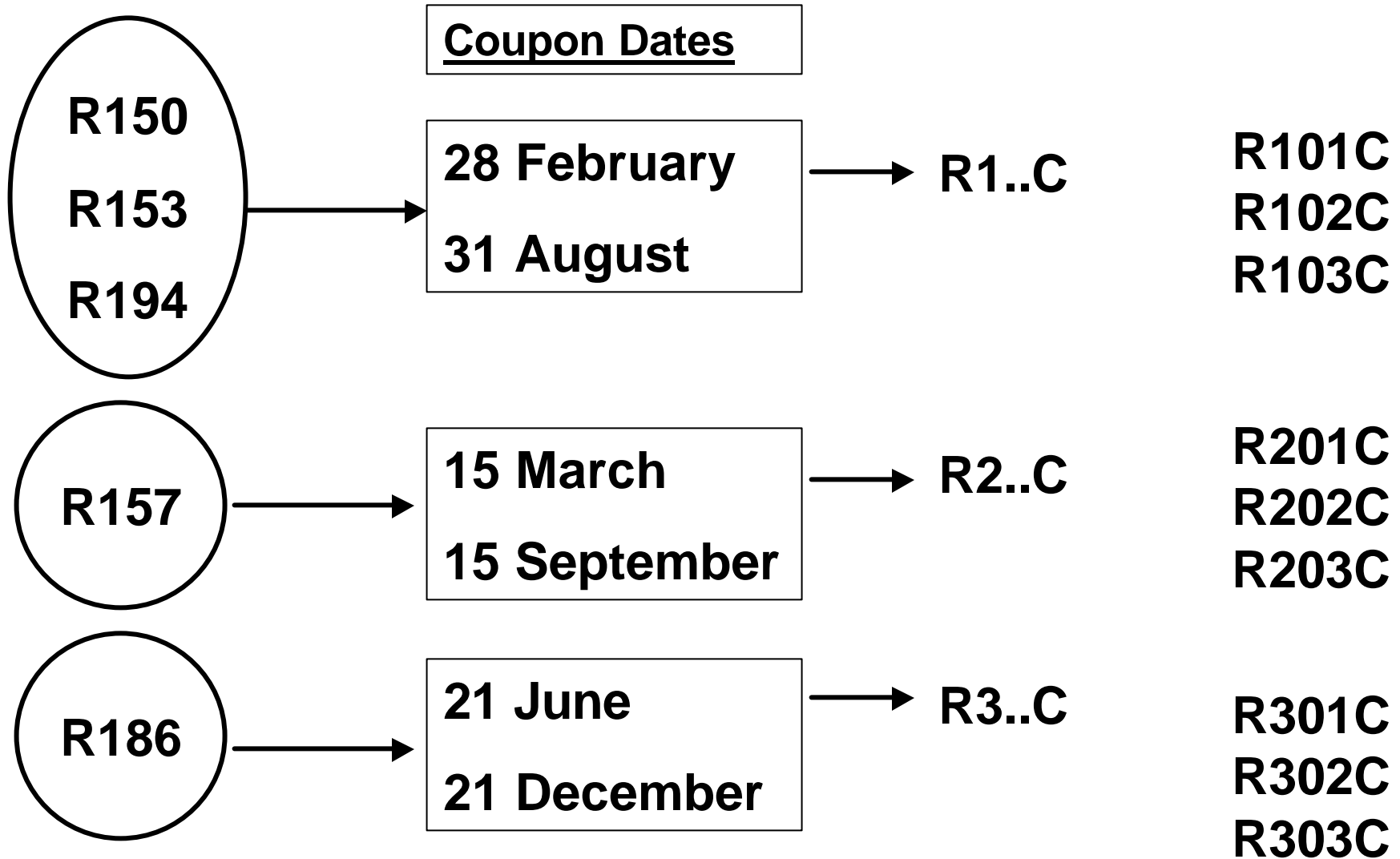
R - **RSA bond**

1, 2 or 3 - **Fungible groups**

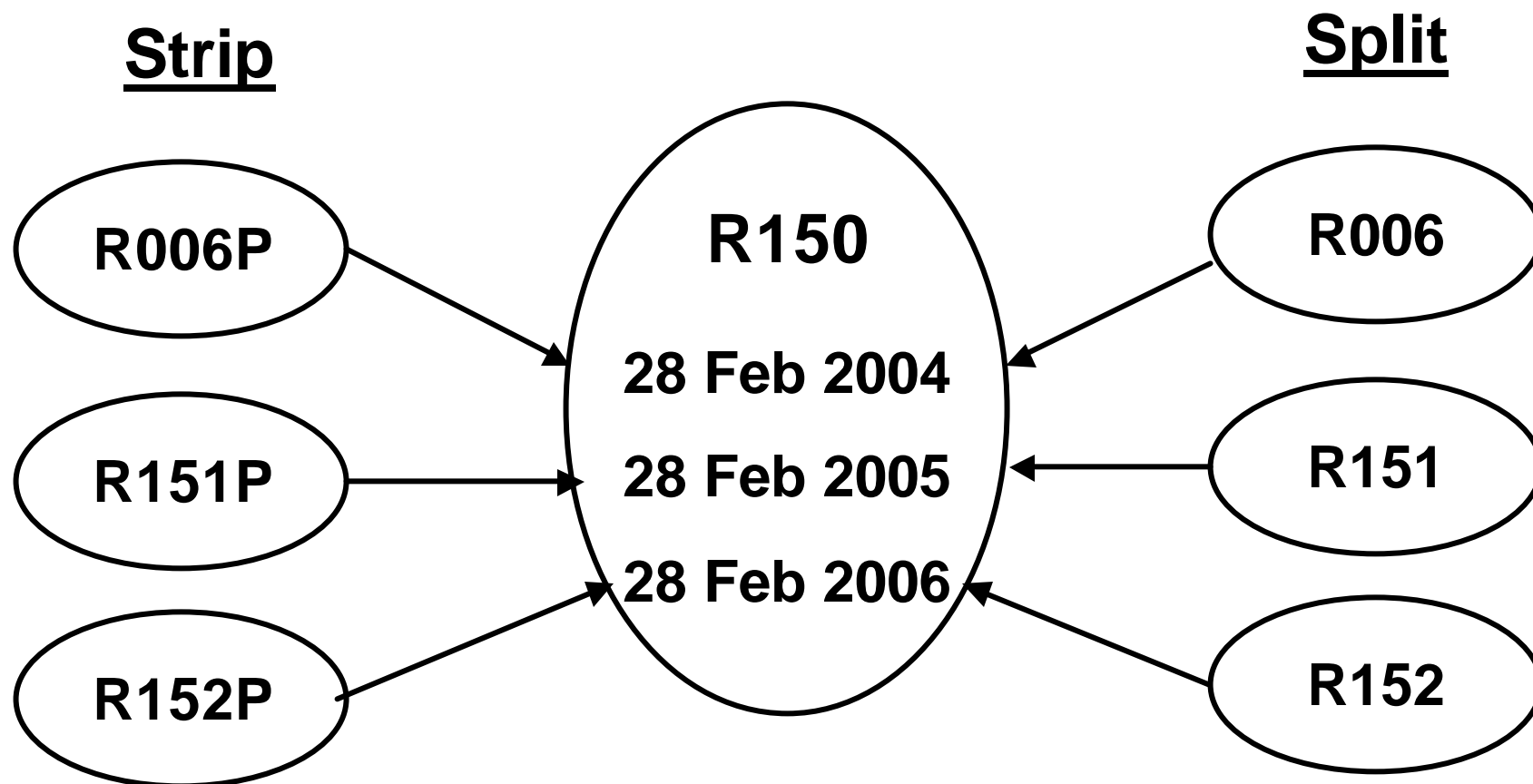
1 to 99 - **Numerical number counter**

C - **Coupon strip bond**

Coupon Strip Codes



Stripping the Principal of Three-legged Bonds



Principal Strip Codes

• R150 → R006P
R151P
R152P

• R194 → R007P
R195P
R196P

• R153 → R008P
R154P
R155P

• R157 → R009P
R158P
R159P

• R186 → R010P
R187P
R188P

Process of Stripping and Reconstitution

- **Central Depository book entry system will be used**

- **Role players:**
 - **Bond Exchange of South Africa (BATS)**
 - **Central Depository / UNEXcor**
 - **Central Depository Participants**
 - **National Treasury**
 - **Primary Dealers**

Secondary Market

- **Trading and settlement:**
 - **Freely traded on BESA**
 - **Trades and settlements the same as other bonds on BESA**

...Secondary Market

- **Script lending and Repo:**

- **Will be possible to lend and/or repo**
- **Qualify as liquid asset**
- **Will be accepted as eligible assets for accommodation purposes**

- **Strip pricing:**

- **Standardised BESA Bond Pricing Formula**

... Secondary Market

- **“Book Close Period”**

- **Strip transactions will not include interest payments for which books are closed**

- **Reconstitution transactions will exclude, into a bundle of strips, the coupon strip for which books are closed**

- **Capital entering final “Book Close Period” - no further stripping / reconstitution possible**

- **Strips will be fully dematerialised**

Market making

- **Certain Primary Dealers in Government bonds will be appointed to:**
 - **Strip and reconstitute bonds**
 - **Make a market in strip bonds**
 - **First six months no obligation to make a market**

...Market making

- **The Primary Dealers are:**
 - **Barclays**
 - **SCMB**
 - **RMB**
 - **Deutsche Bank**
 - **NIB**

Limits on amounts

- **Full amounts of strippable bond issues can be stripped**
- **Stripping and reconstitution minimum:**
 - **three-legged bonds R2 400,00 or multiples thereof**
 - **single legged bonds R800,00 or multiples thereof**
- **No limits on transfers in secondary market**

Market Information on STRIPS

- **BESA will publish daily in electronic form:**
 - **Nominal of each strippable bond in issue and amount held in strip form**
 - **Nominal amounts of each strippable bond stripped and reconstituted the previous day**
 - **Normal bond trading information**
- **National Treasury will publish figures as part of regular bond information**

Legal and Regulatory Environment

- **Enabling Legislation:**

- **Issued in terms of Public Finance Management Act, No. 1 of 1999**
- **Registered securities on BESA regulated by the Financial Markets Control Act, No. 55 of 1989**
- **Dematerialised in Central Depository, subject to the Custody and Administration of Securities Act, No 85 of 1992 and rules of CD**

...Legal and Regulatory Environment

- **Terms and Conditions of Strip Issues**
- **Agreement between the National Treasury and Central Depository to perform function**

Taxation of STRIPS

- **Section 24 J of Income Tax Act will apply**
- **Will follow same principles as conventional zero coupon bonds**

Fees and Costs

- **Systems development costs:**
 - **For own account of National Treasury, Settlement Agents, BESA, Primary Dealers and Market**
 - **UNEXcor systems development cost shared by National Treasury and UNEXcor**
- **Transaction fees:**
 - **Determined by agreement between CD participants and its clients**

StripCo Bonds

- **StripCo bonds to be taken over by National Treasury**
- **As from a date to be agreed with StripCo**

STRIPS Documentation

- **National Treasury's Paper on STRIPS**
- **Terms and Conditions of Issue of Strip Bonds**
- **Agreement between National Treasury and Central Depository**
- **Today's presentations**
- **All above available on www.treasury.gov.za**

Start Date

21 January 2002