

Reform

Stripping of an OLO transforms the not expired coupons and the capital into zero-coupons.

Before June 28th 2011, stripping of OLOs would result in the creation of zero-coupon securities representing interest cash flows, identified as **IOs** and the creation of a zero-coupon security representing capital or **PO**. IOs with the same maturity date are fungible and bear the same ISIN code.

As from 28th June 2011, stripping of OLOs will result in the creation of one type of zero-coupon securities called **BE-strips**. All BE-strips with the same maturity date are **fungible** and have the same ISIN code. BE-strips with a maturity date identical to that of an existing IO, will receive the ISIN code of the existing IO. Existing POs can be converted into BE-strips.

Reason and consequences of the reform

- Fungibility will increase the **liquidity** of the STRIP market, as it is an efficient tool to manage the STRIP portfolio. Before the reform, when stripping bonds in order to meet client demand, POs would easily be sold but IOs would often remain on the balance sheet of the stripping institution. This is costly. Fully fungible zero-coupons or BE-strips will facilitate the reconstitution into OLOs of unsold zero-coupons, as BE-strips can indifferently be used as interest or capital component in the OLO reconstitution process.
- Smoothing of the **zero-coupon curve** : arbitrages between more liquid POs and less liquid IOs will disappear.
- Smoothing of the **underlying cash yield curve** in OLOs as arbitrages will be leveled out.
- There is a structural demand in long strips, especially given the steep yield curve in OLOs. This can ultimately have a positive impact on **the cost of issuing** OLOs.



Stripping	<ul style="list-style-type: none"> • As from June 28th stripping of OLOs will create one type of zero-coupon securities, BE-strips, whatever the original nature (interest or capital) of the cash flow is. • BE-strips with the same maturity date are fungible and are identified with the same ISIN code. • BE-strips with a maturity date identical to that of an existing IO, will receive the ISIN code of the existing IO. • The denomination is BE-strip/old IO xx/yy/zz <ul style="list-style-type: none"> ○ xx stands for the day in which the BE-strip matures ○ yy stands for the month in which the BE-strip matures ○ zz stands for the year in which the BE-strip matures. • Minimum amount to be stripped : € 2000 with multiples of € 2000
Reconstitution	<ul style="list-style-type: none"> • Reconstitution of BE-strips into an OLO requires <ul style="list-style-type: none"> ○ a BE-strip with a nominal amount equivalent to the capital and the last interest payment of the OLO to be reconstituted and ○ BE-strips with nominal amounts equivalent to the corresponding not expired interest payments. • Only BE-strips can be reconstituted into OLOs. Existing POs need to be converted into BE-strips before reconstitution into OLOs. • If the nominal amount offered for reconstitution in a specific OLO line exceeds the nominal stripped amount in that OLO line, a synthetic OLO will be created in order to allow for reconstitution. The NBB SSS is mandated to create synthetic OLOs.
Conversion	<ul style="list-style-type: none"> • POs can continue to exist and be traded as such. They can at any time be presented to the NBB for conversion into BE-strips with the same maturity and for the same nominal value. • IOs can continue to exist as such. IOs will become automatically BE-strips when presented to the NBB for reconstitution.
Stripping Applicants	<p>Stripping, reconstitution of BE-strips as well as conversion of existing PO's into BE-strips are the exclusive right of PDs and RDs.</p>
Secondary market	<ul style="list-style-type: none"> • There is a repo facility on BE-strips with a maturity date identical to an OLO maturity date. The repo facility on POs will be cancelled. Requesting for the repo facility is an exclusive right of PDs and RDs. • The Minister of Finance has the right to suspend stripping or reconstitution in a specific OLO line if liquidity in OLO lines would be hampered. Requests for stripping or reconstitution made on the day of suspension will still be executed as long as the value date of the request falls in the 7 next coming calendar days.