

MEMO# 4313

December 9, 1992

ELIMINATION OF PENNIES ON GNMA SECURITIES - EFFECTIVE FOR TRADES SETTLING ON OR AFTER JANUARY 4, 1992

December 9, 1992 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 45-92 RE: ELIMINATION OF PENNIES ON GNMA SECURITIES - EFFECTIVE FOR TRADES SETTLING ON OR AFTER JANUARY 4, 1992 _____

It was recently brought to the Institute's attention that a Public Securities Association ("PSA") proposal will be implemented on January 4, 1993 that will eliminate pennies from the original face value on GNMA I and GNMA II securities which were issued prior to October 1, 1988. In addition, the proposal calls for a reduction in the transaction multiple on all new GNMA issues from \$5,000 to \$1.00 (after the initial minimum certificate amount of \$25,000). The documentation relating to this proposal is attached for your review. GNMA I and GNMA II securities issued on or after October 1, 1988 were not issued with pennies or "tails" and therefore are not affected by this proposal. The Participants Trust Company ("PTC") has advised its participants that it has modified its securities processing and depository system to conform to the PSA's modifications and is operationally prepared to support this change. When the change is implemented on January 4, 1993, a one- time adjustment will be made by PTC and custodian banks to affected issues (whose original face denomination includes pennies) to reduce their face amounts to the lowest whole dollar. For example, a security that has an original face amount of \$1,624,791.54 or \$1,624,791.48 will become \$1,624,791.00. Although many GNMA securities issued prior to October 1, 1988 have been called or redeemed, there are still some issues outstanding that may be affected by this change. However it should be noted that for pools of GNMA securities issued prior to October 1, 1988, only one participant within each pool received the "tail" or pennies. It is our understanding that the effect of the proposed elimination of pennies on GNMA securities is de minimis and will not impact a fund's net asset value per share. -2- If your fund group holds GNMA securities that may be affected by this proposal, we recommend that you contact your custodian bank to determine what adjustments may be forthcoming (if any) in January, 1993. It is also our understanding that future principal and interest paydowns, which may cause pennies to reappear for those GNMA securities in which pennies were eliminated, will not require any future "pennies" adjustments (because at the PTC level, the combined balances of issues within a particular pool should equal a whole dollar value). Kathleen C. Joaquin Director - Operations/ Fund Accounting Attachment

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