

MEMO# 8403

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ICI White Paper on Stripped Mortgage Backed Securities

November 15, 1996 TO: ACCOUNTING/TREASURERS MEMBERS No. 39-96 INDEPENDENT ACCOUNTANTS ADVISORY COMMITTEE No. 12-96 RE: ICI WHITE PAPER ON STRIPPED MORTGAGE BACKED SECURITIES

The attached paper describes the accounting, financial reporting, tax, SEC yield, and operational issues related to stripped mortgage backed securities ("SMBS"). The paper was developed by the Accounting Policy Subcommittee of the Institute's Accounting/Treasurers Committee ("A/TC") and was unanimously approved for dissemination to the ICI membership by the A/TC and the Independent Accountants Advisory Group. The paper is intended to provide technical guidance to ICI members on SMBS, which are frequently referred to as interest only and principal only securities ("IOs and POs"). SMBSs result when a conventional mortgage backed security is "stripped" into two distinct classes, one of which receives principal cash flows and one which receives interest cash flows. The Institute would like to recognize the contributions of the paper's principal authors: Kenneth V. Domingues, Franklin Resources, Inc. Robert Giambrone, Dean Witter InterCapital Inc. Timothy J. Jacoby, Colonial Management Associates, Inc. Teresa S. Westbrook, Merrill Lynch Asset Management, L.P. Please feel free to contact the undersigned or those named above with any questions on the paper. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment

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