



Federal Reserve Banks

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February 4, 1997
Clearing Memo # 199

TO: All Fedwire Securities Participants

SUBJECT: Book-Entry Services Provided for the Tennessee Valley Authority

The Tennessee Valley Authority (TVA) will begin issuing inflation-indexed marketable securities in book-entry form in the near future. In this connection, the Federal Reserve Banks have been named fiscal agent with respect to these obligations.

The new inflation-indexed securities will be issued with a *stated fixed* rate of interest to be applied to the *inflation*-adjusted principal on each interest payment date. They will be redeemed at maturity at their inflation-adjusted principal amount or at par, whichever is greater.

The new securities will be processed by the Fedwire[®] Securities Service. Transfers of these obligations will be governed by the same procedures and fees applicable to transfers of other book-entry securities. These obligations are transferable nationwide upon issuance and they will be eligible for stripping at issuance.

A. CUSIP NUMBERS/SECURITY DESCRIPTIONS

The bond, corpus component and the semi-annual interest components will be assigned unique nine character CUSIP numbers. The security description field (line 8 of the securities message) for each security type will be as follows:

Inflation-Linked Bonds the bond will include the interest rate, the alpha mnemonic ***TVIB***, the maturity year and series.

An example of this is "NN.NNN ***TVIB*** YY A".

The corpus (principal) component (***TVIP*** or ***TVIC*** if callable) will read: "NN.NNN ***TVIP*** YY A".

The semi-annual interest components (***TVII***) will read: "***TVII*** YY MM/DD/YY A".

Inflation-Linked Notes the note will include the interest rate, the alpha mnemonic ***TVLN***, the maturity year and series.

An example of this is "NN.NNN ***TVLN*** YY A".

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The corpus (principal) component (TVLP or TVLC if callable) will read: "NN.NNN *TVLP* YY A".

The semi annual interest components (*TVLI*) will read: "*TVLI* YY MM/DD/YY A".

B. DENOMINATIONS

The minimum and multiple denominations for these securities will be announced with each new issue.

C. ORIGINAL ISSUES

On the original issue settlement date, TVA will transmit the securities through the securities transfer system to depository institutions (DIs). The original issue will be effected by sending a Type Code 25 message (reversal code 2502) which will transfer the securities against payment to the purchaser's account from TVA's issuer account.

D. SECONDARY MARKET TRANSACTIONS

Transfer will be at par amount and effected using the standard Type Code 2000 messages, and will be governed by the same procedures and fees applicable to transfers of other TVA book-entry securities.

E. PRINCIPAL AND INTEREST PAYMENTS

The principal and interest payments for these securities will be automated. On the payment date, the FRBNY will wire the proceeds, via Type Code 8900 and 8906 respectively, to book-entry account holders.

Principal (Note/Bond Redemption)

Principal payments will be made at maturity. The principal payment will be determined by multiplying the par by the index-ratio which will be reported as the "MATURITY FACTOR" in the broadcast, payment wires and credit advices. The same factor will be used for both the final maturity payment and the final interest payment.

Interest

FRBNY will broadcast the index ratio as the "BOOK VALUE FACTOR" approximately five business days prior to the interest payment date. Interest payments will be based on the security's inflation-adjusted principal at the time interest is paid. This adjustment is made by multiplying the par amount of the security by the applicable index ratio.

F. CONVERSION INTO STRIPS

For these TVA securities to be stripped into their component parts, the original par amount (not adjusted for inflation) must comply with the minimum and multiple requirements established for that coupon rate in order to produce semi-annual interest payments (TVIIs and TVLIs) in multiples of \$1000.00.

The procedures for these TVA STRIP requests are the same as the procedures for stripping existing TVA issues.

Principal (Corpus Redemption)

At maturity, the holder of a principal component (TVIP or TVLN) will receive the inflation-adjusted principal value or the par amount, whichever is greater. The principal payment will be determined by multiplying the par by the index ratio which will be reflected as the "MATURITY FACTOR" on the broadcast approximately five business days prior to the

payment date. The principal payment will be made via Type Code 8900 as is the current practice.

STRIPS Redemption

STRIP interest payments will be based on the inflation-adjusted principal value. The semi-annual interest payments (TVII or TVLI) will be processed as a maturing security. At maturity, the payment to the holder will be determined by multiplying the par of the STRIP by the index ratio which will be reflected as the "MATURITY FACTOR" on the broadcast approximately five business days prior to the interest payment date. The STRIP interest payment will be made via Type Code 8900 as is the current practice.

G. RECONSTITUTION REQUESTS

The procedures for reconstitution of these securities are similar to the procedures for reconstituting existing TVA securities with one exception. The interest components (TVIIs or TVLIs) are NOT GENERIC. Interest components stripped from fixed-principal securities (TVINs) or from different inflation-indexed securities are not interchangeable for reconstitution.

Questions regarding this announcement should be directed to the Federal Reserve Bank of New York at (201) 531-3341.