

MEMBER REGULATION



INVESTMENT
DEALERS
ASSOCIATION
OF CANADA



ASSOCIATION
CANADIENNE DES
COURTIERS EN
VALEURS MOBILIÈRES

notice

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MR0148

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ATTENTION:
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Exemption from Regulation 800.48 – Interest Calculation for Monthly Pay Instruments

The accrued interest calculation in Regulation 800.48, which was illustrated in Member Regulation Notice MR-078 on May 30, 2001, is intended for monthly pay instruments that compound interest monthly.

However, instruments such as NHA mortgaged-backed securities (NHA MBS), compound interest semi-annually. Furthermore, the interest is due on the first day of the month, but is not paid to the investor until mid-month. Consequently, these instruments require a different accrued interest calculation and are exempt from the accrued interest calculation in Regulation 800.48; and therefore, should follow the calculation in Attachment #1.

**An example to demonstrate the accrued interest calculation on the sale of NHA MBS,
settling on April 30, 2002.**

Face Value	\$100,000
Coupon rate	5.75%
Maturity	12/01/2004
Coupon compounding frequency	Semi-annually
Payment date	15 th of each month
Accrued interest calculation (NHA MBS convention)	$= (\text{face value} \times \text{monthly coupon rate} \times (\text{number of days from the first day of the settlement month to the settlement day})) / ((\text{number of days in the settlement month}))$ $= (100,000 \times 0.473525\% \times (29)) / ((30))$
Monthly coupon rate	$= ((1 + (5.75\% / 2))^{(1/6)} - 1)$ $= 0.473525\%$
Value date (settlement date)	04/30/02
Number of days from the first day of the settlement month to the settlement day	29
Number of days in the settlement month	30
Accrued interest	\$457.74