

MEMO# 8039

July 8, 1996

INSTITUTE COMMENT LETTER ON INFLATION-PROTECTION SECURITIES

1 See Memorandum to Institutional Funds Committee No. 8-96, Money Market Funds Ad Hoc Committee No. 7-96, dated May 28, 1996; Memorandum to Tax Committee No. 19-96, Pension Committee No. 21-96, dated June 3, 1996. July 8, 1996 TO: INSTITUTIONAL FUNDS COMMITTEE No. 12-96 MONEY MARKET FUNDS AD HOC COMMITTEE No. 9-96 PENSION COMMITTEE No. 31-96 TAX COMMITTEE No. 24-96 RE: INSTITUTE COMMENT LETTER ON INFLATION-PROTECTION SECURITIES

As we previously informed you, the Treasury Department has requested comments on the design details, terms and conditions and other features of a proposed new type of Treasury security: "inflation-protection" securities.¹ The Institute recently submitted to the attached comment letter to the Treasury Department. The Institutes letter supports the Treasury Departments initiative and agrees with the Treasury that inflation-protection securities could provide savings on interest costs to the United States government and broaden the types of debt instruments available to investors in the financial markets. The letter indicates that, if structured correctly, inflation-protection securities should prove to be attractive both to individual and institutional investors and in the pension and retirement markets. The Institutes specific comments concern how the Treasury Department might best ensure that inflation-protection securities gain the broadest acceptance with the investing public. The Institute recommends that the securities be issued with a broad range of maturities, including short-term (1 to 5 years), intermediate-term (5 to 10 years) and long-term (more than 10 years) maturities. Although the Institute does not express an opinion of the "preferred" structure for the securities, the letter recommends that the securities be structured to meet the expectations of investors, including investment companies. Accordingly, the letter recommends that, in structuring the securities, the Treasury Department consider certain issues that are of particular concern to investment companies, including issues related to the securities volatility and cash flow and their tax and accounting treatment. Finally, the letter recommends that, as part of the proposal, the Treasury Department develop a schedule in which to seek periodically public comment from market participants on the issuance and structure of inflation-protection securities.

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