MEMO# 4800

May 18, 1993

BILL INTRODUCED TO CREATE NEW TAX REGIME FOR ASSET-BACKED POOLS

May 18, 1993 TO: BOARD OF GOVERNORS NO. 46-93 TAX COMMITTEE NO. 26-93 SEC RULES COMMITTEE NO. 47-93 RE: BILL INTRODUCED TO CREATE NEW TAX REGIME FOR ASSET-BACKED POOLS ____ The attached bill, which was recently introduced by Congressman Hoagland of the House Ways and Means Committee, would create a new conduit tax regime for asset-backed pools that qualify under the bill as financial asset securitization investment trusts ("FASITs"). To qualify as a FASIT, a pool would be required to hold substantially all of its assets at each quarter-end in debt obligations or certain other instruments. Consistent with the SEC's recent rule exempting certain asset-backed pools from regulation under the Investment Company Act of 1940, the bill would require that the FASIT's governing documents prohibit the FASIT from acquiring or disposing of assets for the "primary purpose of recognizing gains or decreasing losses resulting from market value changes." Under the bill, the FASITs would not be subject to any entity level tax. Instead, the FASIT's income would first be allocated to the debt obligations issued by the FASIT. After deducting the FASIT's expenses, including any interest allocated to debt instrument holders, any remaining amounts -- the FASIT's taxable income -- would be allocated to the FASIT's common and preferred ownership interests. The bill would be effective on date of enactment. * * * We will keep you informed of developments. Catherine L. Heron Vice President - Tax & Pension Attachment