

MEMO# 2745

May 8, 1991

PRIVATE LETTER RULING ON "HUB AND SPOKE" STRUCTURE

- 1 - May 8, 1991 TO: TAX MEMBERS NO. 13-91 RE: PRIVATE LETTER RULING ON "HUB AND SPOKE" STRUCTURE _____ Enclosed is a copy of one of thirteen virtually identical Private Letter Rulings regarding what is believed to be the Signature Financial "Hub and Spoke" structure. Hub and Spoke is intended as a way for banks to launch a family of funds for different customer bases without needing a Securities and Exchange Commission exemptive order. The hub in this type of structure is the central portfolio, at which level all investment advisory, management and custodial fees are charged. The spokes are the separate funds for each market segment, each of which invests substantially all of its assets in the hub. Shareholder servicing and distribution charges are assessed against each spoke. The hub will invest its assets as if Internal Revenue Code ("Code") section 851(b) applied at the Fund level, even though the hub is not a regulated investment company. The hub is a state-law business trust registered under the Investment Company Act of 1940 (referred to in the ruling as the "Fund"). The spokes include a series regulated investment company with eleven portfolios, each of which will invest at least 90% of its assets in the Fund. (The series company parent is referred to in the ruling as "B", and one of the eleven series is referred to as "D".) A subsidiary of the investment adviser/sponsor also invests in the hub. The taxpayer made several representations relating to the Fund's classification under Code section 7701 as a partnership or as an association taxable as a corporation. First, the interests in the Fund are nontransferable. Second, all the holders of interests in the Fund are jointly and severally liable for the Fund's liabilities and obligations, although they are indemnified by the Fund to the extent of the Fund's assets for claims in excess of the holder's proportionate interest in the Fund. Third, the Fund can be terminated at any time upon the two-thirds vote of the holders. Finally, the retirement, withdrawal, resignation, bankruptcy or expulsion of any holder will terminate - 2 - the Fund unless the remaining holders unanimously agree to continue the Fund. The Fund also represented, with regard to its request for a ruling that it would not be a publicly traded partnership under Code section 7704, that the Fund would have fewer than 500 shareholders and that its interests will not be traded on an established securities market or issued in a transaction registered under the Securities Act of 1933. Based on the above facts, the Service ruled that the Fund is a partnership for federal income tax purposes, and that it will not be considered a publicly traded partnership. We will keep you informed of further developments. David J. Mangefrida, Jr. Assistant Counsel - Tax Attachment DJM:bmb

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.