

MEMO# 5674

March 14, 1994

COMMENTS ON AGGREGATE INCOME ALLOCATION RULES FOR SECURITIES PARTNERSHIPS

March 14, 1994 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 10-94 TAX COMMITTEE NO. 9-94 RE: COMMENTS ON AGGREGATE INCOME ALLOCATION RULES FOR SECURITIES PARTNERSHIPS _____ As we previously advised you, the Internal Revenue Service published in December, 1993, proposed and temporary regulations permitting certain securities partnerships to use an aggregate method of allocating gains and losses. (See Institute Memorandum to Accounting/Treasurers Members No. 3-94 and Tax Members No. 2-94, dated January 11, 1994.) An aggregate method for allocating partnership gains and losses is particularly significant in the context of the master/feeder fund structure, where the master fund partnership holds a substantial portfolio of securities and the relative interests of the feeder fund partners shift continuously. Today, the Institute submitted the attached comment letter regarding the application of the proposed IRS rules to master/feeder funds. The letter commends the IRS for permitting aggregate allocations and recommends the following three modifications for those securities partnerships that are open- end investment companies registered under the Investment Company Act of 1940. 1. Registered, open-end investment companies should be deemed to meet the requirement in the regulation that at least 90 percent of the fair market value of the partnership's non-cash assets consist of "readily tradable securities," as defined in Treasury Regulations. 2. Registered, open-end investment companies should be permitted to aggregate gains and losses from all of their assets, not just their assets that are "readily tradable". 3. The regulations should include a specific illustration of the operation of the aggregate method on which funds may rely. The Institute's comments describe one such method and provide examples of its operation. We will keep you informed of further developments. Catherine L. Heron Vice President and Senior Counsel Attachment