

MEMO# 9158

August 13, 1997

COMPENSATING BALANCE ARRANGEMENTS: CONFERENCE CALL

1 See, e.g., Institute Memoranda to Tax Committee No. 3-97, dated January 20, 1997, and to Tax Committee No. 17-97 and Task Force on Adviser/Distributor Tax Issues, dated May 20, 1997. 2 See Institute Memorandum to Tax Committee No. 15-97, dated April 23, 1997. [9158] August 13, 1997 VIA FACSIMILE TO: TAX COMMITTEE No. 24-97 RE: COMPENSATING BALANCE ARRANGEMENTS: CONFERENCE CALL

As you may know, in audits of tax-exempt funds IRS agents have been examining any "compensating balance" arrangements with custodians because the IRS believes that such arrangements may generate taxable income to a fund. This matter has been discussed at various Tax Committee meetings,¹ and the Institute has made a submission to the IRS that analyzed this matter and concluded that a fund does not have taxable income from a compensating balance arrangement.² It has been suggested that it would be helpful to our members if we scheduled a conference call so that members can discuss (1) the types of information that IRS agents are requesting from funds on compensating balance arrangements, and (2) how funds are responding to the requests. Accordingly, a conference call has been scheduled for Wednesday, August 20 at 2:00 p.m. EST. If you would like to participate in this call, please fax the attached form to Ana Alvarez by Monday, August 18. If you would like to participate and need an "800" number to dial in, please indicate this on the attached form and Ana will contact you with the "800" number. If you have any questions regarding the content of the call, please call me at (202) 326-5837. Anne M. Barr Associate Counsel - Tax Attachment

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