

MEMO# 7720

March 19, 1996

INSTITUTE LETTER ON PROPOSAL REGARDING REPORTING BY HOLDERS OF LARGE POSITIONS OF TREASURY SECURITIES

1 See Memorandum to Investment Advisers Committee No. 50-95, Investment Issues Committee No. 11-95, Money Market Funds Ad Hoc Committee No. 15-95, and SEC Rules Committee No. 133-95, dated December 22, 1995. March 19, 1996 TO: INVESTMENT ADVISERS COMMITTEE No. 4-96 INVESTMENT ISSUES COMMITTEE No. 3-96 MONEY MARKET FUNDS AD HOC COMMITTEE No. 3-96 SEC RULES COMMITTEE No. 20-96 RE: INSTITUTE LETTER ON PROPOSAL REGARDING REPORTING BY HOLDERS OF LARGE POSITIONS OF TREASURY SECURITIES

As we previously advised you, the Department of the Treasury ("Treasury") recently issued for public comment proposed rules that would establish reporting and recordkeeping requirements related to large positions in certain Treasury securities.¹ The Institute filed the attached comment letter on the proposal. The Institutes letter strongly supports the parts of the proposal that: (1) would limit the reporting requirements to holders of a position in a particular Treasury issue of \$2 billion or greater; (2) would require on-demand reporting (i.e., reporting only in response to particular circumstances regarding a particular issue of Treasury securities); (3) would rely on records that investment companies and investment advisers already are required to keep, instead of requiring new records; and (4) would subject the entity that exercises investment discretion over particular Treasury securities to any reporting obligations regarding those Treasury securities. (This would mean, in the case of investment advisers to registered investment companies, that the investment adviser, not the investment company, potentially would be required to report a position in a particular Treasury issue.) The Institutes letter also opposes several aspects of the proposal on the basis that they would impose compliance costs that would not be justified by the benefits to be derived from the information sought. The letter urges Treasury to exclude from any new reporting or recordkeeping obligations securities received under an overnight repurchase agreement, securities received that are subject to a right of substitution on behalf of the delivering counterparty, securities received that are subject to third party custodial relationships, and securities received under hold-in-custody reverse repurchase agreements. The letter reasons that it would be very burdensome for advisers to compile and report information regarding these securities and that such reports would not provide Treasury with the information it is seeking since the adviser does not control these securities. The letter also objects to the application of recordkeeping rules to any reporting entity that had a large position in any Treasury security at any time during

the two year period ending ninety days after publication of the final rule. The letter points out that it would be costly for advisers to be required to review their records to determine if they had a reportable position during that period and such a requirement would retroactively apply the new requirements. Finally, the letter objects to the proposed one and one-half day reporting deadline, and, instead, suggests providing filing entities with four business days to prepare and file the requested reports. Dorothy M. Donohue Assistant Counsel Attachment

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