

MEMO# 6957

May 23, 1995

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

1Memorandum to Investment Advisers Committee No. 12-95, Investment Issues Committee No. 1-95, Money Market Funds Ad Hoc Committee No. 1-95, SEC Rules Committee No. 21-95, dated February 13, 1995. May 23, 1995 TO: INVESTMENT ADVISERS COMMITTEE No. 24-95 INVESTMENT ISSUES COMMITTEE No. 6-95 MONEY MARKET FUNDS AD HOC COMMITTEE No. 5-95 SEC RULES COMMITTEE No. 65-95 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 an advance notice of proposed rulemaking (ANPR) announcing its intention to issue rules that would require persons holding, maintaining, or controlling large positions in to-be-issued or recently issued Treasury securities to keep records and file reports of such positions.¹ The Institute filed the attached comment letter on the ANPR. The Institute's letter recommends that Treasury carefully tailor any proposed large position reporting system to minimize the cost and administrative burdens on reporting entities. In that regard, the Institute's letter recommends that the reporting obligation not be on-going, but rather, be triggered by the circumstances regarding a particular issue of Treasury securities. Specifically, the letter suggests that if certain to-be-issued or recently issued Treasury securities become "rich" or significantly higher in price relative to other comparable issues, Treasury could publicly announce that all reporting entities (as defined by Treasury) owning more than a certain amount of the issue (e.g., 10-25% of a particular issue) must report their holdings to the Federal Reserve Bank of New York within a specified time (e.g., three business days). Based on these reports, Treasury could request additional information. The Institute reasoned in its letter that this approach appears to meet Treasury's principal purpose of understanding the possible reasons for significant price distortions in to-be-issued or recently issued Treasury securities without unduly burdening reporting entities. The Institute's letter also recommends that Treasury deem the investment adviser to a registered investment company, rather than the company itself, to be the reporting entity. The letter reasons that since advisers make investment decisions for the investment companies that they advise, deeming the adviser as the reporting entity would seem to best accomplish Treasury's goals. The Institute's letter also suggests, among other things, that Treasury permit sufficient time for reporting entities to develop internal policies and systems for complying with any new large position reporting requirements. Dorothy M. Donohue Assistant Counsel Attachment

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