

MEMO# 15382

November 22, 2002

DRAFT COMMENTS FOR YOUR REVIEW ON REVENUE PROCEDURE 2002-68 REGARDING SYNTHETIC TAX-EXEMPT SECURITIES

[15382] November 22, 2002 TO: TAX COMMITTEE No. 37-02 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 7-02 FIXED-INCOME ADVISORY COMMITTEE No. 13-02 RE: DRAFT COMMENTS FOR YOUR REVIEW ON REVENUE PROCEDURE 2002-68 REGARDING SYNTHETIC TAX-EXEMPT SECURITIES Attached is a draft comment letter to the Treasury Department and the Internal Revenue Service regarding Revenue Procedure 2002-68¹ that modifies and supercedes the guidance in Revenue Procedure 2002-162 pursuant to which a regulated investment company ("RIC") may take into account each month its allocable share of tax-exempt income from certain synthetic variable rate tax-exempt securities. Specifically, the letter requests • clarification of the test that requires 95 percent of a partnership's income be derived from tax-exempt obligations, to specify that capital gains are not included in total income for purposes of that calculation; • reversal of the default rule with respect to both the election at the partnership and partner consent level, so that each must elect "out" of monthly recognition of income rather than electing "in" to such treatment; and • further modifications to the otherwise-applicable partnership reporting requirements to bring closer to balance the costs of reporting with any perceived benefits of such reporting.

1 See, Institute Memorandum to Fixed Income Advisory Committee No. 11-02, Money Market Funds Advisory Committee No. 5-02, and Tax Committee No. 30-02, dated October 9, 2002. 2 See, Institute Memorandum to Tax Committee No. 6-02, dated February 22, 2002. 2 ACTION REQUESTED Please provide your comments on this draft letter to the undersigned (cbarre@ici.org or 202/326-5821) by December 2, 2002, so that we can file the letter by the IRS' December 6 comment deadline. Catherine Barré Assistant Counsel Attachment (in .pdf format)