

MEMO# 14889

July 9, 2002

DRAFT SUBMISSION FOR YOUR REVIEW REGARDING LOOK-THROUGH TREATMENT FOR REPURCHASE AGREEMENTS AND REFUNDED MUNICIPAL BONDS

[14889] July 9, 2002 TO: TAX COMMITTEE No. 20-02 RE: DRAFT SUBMISSION FOR YOUR REVIEW REGARDING LOOK-THROUGH TREATMENT FOR REPURCHASE AGREEMENTS AND REFUNDED MUNICIPAL BONDS Attached is a draft submission to the Treasury Department/Internal Revenue Service regarding the treatment of repurchase agreements and refunded municipal bonds for purposes of the Subchapter M diversification test. Specifically, the submission urges that investments in certain fully collateralized repurchase agreements and certain refunded municipal bonds be treated as direct investments in the underlying collateral for purposes of applying the diversification requirements under Internal Revenue Code section 851(b)(3). The requested guidance would allow RICs to apply the RIC diversification test to repurchase agreements and/or refunded bonds in a manner that is consistent with the treatment of such investments under the SEC's recently-promulgated Rule 5b-31. ACTION REQUESTED Please provide your comments on the draft submission which reflects the changes from the previously-circulated draft² that were discussed at the Tax Committee meeting to the undersigned (cbarre@ici.org or (202) 326-5821) or Keith Lawson (lawson@ici.org or (202) 326- 5832) by noon on Thursday, July 11, 2002. Catherine Barré Assistant Counsel Attachment (in .pdf format) 1 Rule 5b-3 was adopted by the SEC under the 1940 Act, effective on August 15, 2001. See, SEC Release No. IC-25058 (July 11, 2001) (the "Final Release"). Rule 5b-3 had been proposed by the SEC in SEC Release No. IC-24050 (September 23, 1999) (the "Proposing Release"). 2 See Institute Memorandum to Tax Committee No. 19-20, dated June 18, 2002, attaching, inter alia, draft submission on repurchase agreements and refunded municipal bonds for discussion at June 21 Tax Committee Meeting.