

MEMO# 8796

April 11, 1997

FOR YOUR REVIEW -- DRAFT SUBMISSION TO IRS

1 See Institute Memorandum to Tax Committee No. 3-97, dated January 20, 1997. 2 Among the 15 IRS representatives at the meeting were (a) several attorneys with the IRS Financial Institutions and Products group, (b) Grete Carro, the IRS industry specialist for securities and financial service firms, and (c) one or more IRS field agents. April 11, 1997 TO: TAX COMMITTEE No. 13-97 ATTENDEES AT FEBRUARY 4, 1997 MEETING ON COMPENSATING BALANCES RE: FOR YOUR REVIEW -- DRAFT SUBMISSION TO IRS

_____ As you know, on February 4 the Tax Committee met to discuss the use of "compensating balance" arrangements by tax-exempt funds.¹ Specifically, the meeting considered an issue raised during the audit of a tax-exempt fund regarding whether "compensating balance" or "expense offset" arrangements with custodians generate taxable income to the fund. Last month, the Institute met with the Internal Revenue Service² to discuss the Service's position. At the conclusion of the meeting, we offered to provide the Service with a written submission on the industry's position. Action Requested Please review the attached draft Institute memorandum, that has been prepared for submission to the IRS, at your earliest convenience. All comments should be provided to the undersigned (at 202-326-5832) or to Anne Barr (at 202-326-5837) no later than Wednesday, April 16, so that the submission can be filed on Friday, April 18. We will keep you informed of developments. Keith D. Lawson
Associate Counsel - Tax Attachment (in .pdf format)