

MEMO# 2407

December 21, 1990

JANUARY 16, 1991 MEETING ON TAX ISSUES INVOLVING VARIABLE RATE TRUST CERTIFICATES

December 21, 1990 TO: TAX COMMITTEE NO. 34-90 MONEY MARKET FUNDS AD HOC COMMITTEE NO. 7-90 RE: JANUARY 16, 1991 MEETING ON TAX ISSUES INVOLVING VARIABLE RATE TRUST CERTIFICATES _____ As you may know, new derivative products such as variable rate trust certificates are being developed for sale to tax- exempt money market funds. These products are typically structured by a broker acquiring an issue of long-term municipal bonds and attaching numerous features to it which effectively result in a product that pays a short-term interest rate and has a short-term maturity. The resulting derivative product is intended to qualify as an eligible asset for money market funds. Numerous tax issues are associated with these products. On December 12, 1990, members of the Tax Committee, Money Market Funds Ad Hoc Committee and Tax Advisory Committee met to discuss some of the tax issues associated with these products. (See Institute Memorandum to Tax Committee No. 31-90, Money Market Funds Ad Hoc Committee No. 6-90 and Tax Advisory Committee, dated December 6, 1990.) During the meeting, it was agreed that a subcommittee of the Tax and Money Market Funds Ad Hoc Committees would be formed to discuss model structures for these products, identify tax issues associated with the models and seek guidance from the Internal Revenue Service as appropriate. The first meeting of the new subcommittee will be held at the Institute on Wednesday, January 16, 1991 at 10:00 a.m. Lunch will be served following the meeting. Unlike the December 12, 1990 meeting on this subject, which included numerous outside lawyers, the January 16 meeting will be limited to Institute members. If you would like to participate on this subcommittee and attend the January 16 meeting, please let Berlauder Barnes at the Institute (202/955-3518) know by Friday, January 11, 1991. We will keep informed of developments. Keith D. Lawson Associate General Counsel