

May 24, 1996

David A. Walton
(415) 391-5780

Fred Pyatt, Director
Howard Stevens, Supervisory Program Analyst
Division of Special Investments
Bureau of the Public Debt
Department of the Treasury
200 3rd St., P.O. Box 396.
Parkersburg, West Virginia 26101-0396

RE: Comments on Advance Notice of Proposed Rulemaking
State and Local Government Series Securities

Via U.S. Mail and Internet

Dear Mssrs. Pyatt and Stevens,

I am writing as Chair of the Arbitrage and Rebate Committee of the National Association of Bond Lawyers ("NABL") to comment on the Advance Notice of Proposed Rulemaking, 31 CFR Part 344 (Department of the Treasury Circular, Public Debt Series No. 3-72) (the "Notice"). NABL was incorporated as an Illinois nonprofit corporation on February 5, 1979, for the purposes of educating its members and others in the law relating to state and municipal bonds and other obligations and participating in national and local forums in order to advise and comment on legislative, regulatory and judicial issues affecting said bonds and obligations. NABL currently has over 2,800 members.

As you know, issuers of tax-exempt bonds invest tax-exempt bond proceeds and other qualifying moneys in State and Local Government Series securities ("SLGS") in order to comply with arbitrage limitations imposed by the Internal Revenue Code. In addition to being convenient and helpful to these issuers, the SLGS program is also beneficial to the Federal Government because it assures that arbitrage is not being diverted to private investment providers. Unfortunately, the SLGS program has not been used to its full potential because of onerous requirements and limitations of the program. The

general changes proposed in the Notice should remedy or greatly alleviate most of the serious problems currently encountered by users of the SLGS program. The NABL Arbitrage and Rebate Committee (the "Committee") welcomes these proposed changes and encourages the Bureau of Public Debt (the "Bureau") to continue the process of turning these proposals into regulations as soon as possible. The Committee endorses the recommendations made in a letter to Ms. Darcy E. Bradbury, dated January 12, 1996, signed by various municipal issuers, attorneys and public finance professionals, and delivered under a cover letter signed by Arthur M. Miller of Goldman, Sachs & Co. As to the itemized points in the Notice, we have the following suggestions:

Item number three in the Notice proposes reducing the minimum maturity for time deposit and special zero interest SLGS. We ask that SLGS be available in any maturities, including overnight zero interest SLGS. Item number four in the Notice proposes reducing the time between the date of subscription and the date of issue of SLGS. We recommend that this time period be reduced to five business days. Item number five in the Notice proposes making SLGS pricing more consistent with open market Treasury securities. Although we are not expert in securities pricing, it is our understanding that reducing the current 12.5 basis point differential to a 5 basis point differential and pricing SLGS on a basis other than "on the run" pricing should make SLGS pricing more consistent with Treasuries.

Item number six in the Notice proposes making SLGS available for funds subject to rebate as well as yield restriction. We suggest that this could be achieved by making SLGS available for all "gross proceeds" of tax-exempt obligations, as defined in Section 1.148-1 of the Income Tax Regulations (whether or not such provision is applicable to the issue in question). Finally, we strongly support implementation of the change proposed in item number eight of the Notice, particularly the ability to receive a premium on early redemption. The current inability to receive a premium on early redemption has become an enormous disadvantage of investing in SLGS, especially in light of the significant changes that have occurred in the last six years to the Income Tax Regulations that apply to tax-exempt obligations.

In addition to the proposed changes itemized in the Notice, we suggest another change. The use of SLGS will continue to be inefficient in many situations involving the refunding (or other defeasance) of tax-exempt obligations bearing no interest or a relatively low interest rate (e.g., deep-discount bonds and so-called "compound interest bonds".) Therefore, we recommend that the available options for designating the first

interest payment date for SLGS that are Notes or Bonds be revised to allow the option of designating the maturity date as the first payment date (the only option currently available for Certificates). This change would allow subscribers to structure SLGS portfolios that do not require future reinvestments of mismatched interest receipts in zero rate SLGS until used to pay debt service on the retired bonds. This forced reinvestment in zero SLGS may cause a blended yield that is unnecessarily lower than the applicable arbitrage yield limit, thereby placing SLGS at a portfolio cost that is more expensive than the least expensive portfolio cost of securities purchased in the open market.

We welcome the opportunity to comment on regulatory language if proposed regulations are issued. We would be pleased to make ourselves available to answer questions and attend any meetings regarding these comments. Questions should be directed to David A. Walton, Chair of the Arbitrage and Rebate Committee, at (415) 391-5780. Once again, we commend you for this excellent initial step in improving the SLGS program.

Sincerely,

David A. Walton
Chair, Arbitrage and Rebate Committee

Enclosures
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