

MEMO# 6767

March 16, 1995

INSTITUTE COMMENTS ON CONTINGENT DEBT REGULATIONS

* See Institute Memorandum to Accounting/Treasurer Members No. 45-94 and Tax Members No. 52-94, dated December 23, 1994. March 16, 1995 TO: TAX COMMITTEE No. 15-95 RE: INSTITUTE COMMENTS ON CONTINGENT DEBT REGULATIONS

As we previously informed you, in December the Internal Revenue Service published proposed regulations governing the tax treatment of debt instruments with one or more contingent payments.* These regulations provide rules for determining the tax treatment of many structured notes, as well as rules for integrating contingent or variable rate debt with related hedges. The attached Institute comment letter addresses two RIC-specific concerns presented by the proposed regulations. First, the letter analyzes various difficulties that the proposed regulations would create under the section 4982 minimum distribution requirements for taxable bonds with contingent interest; the letter urges that RICs take the income and loss on contingent debt instruments into account for section 4982 purposes using an October 31 year-end, similar to the treatment of foreign currency gains and losses. Second, the letter considers the treatment of tax-exempt obligations with contingent interest and urges that income and loss on such instruments be treated consistently as capital. We will keep you informed of further developments. Peter J. Cinquegrani Assistant Counsel - Tax Attachment

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