

**MEMO# 6749**

March 10, 1995

## **DRAFT COMMENTS ON PROPOSED REGULATIONS CONCERNING CONTINGENT DEBT INSTRUMENTS**

\* See Institute Memorandum to Accounting/Treasurers Members No. 45-94 and Tax Members No. 52-94, dated December 23, 1994. VIA FAX March 10, 1995 TO: TAX COMMITTEE No. 13-95 CONTINGENT DEBT RULES SUBCOMMITTEE RE: DRAFT COMMENTS ON PROPOSED REGULATIONS CONCERNING CONTINGENT DEBT INSTRUMENTS

As you know, in December the Internal Revenue Service published proposed regulations governing the tax treatment of debt instruments with one or more contingent payments.\* The new proposed 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. Attached is a draft comment letter on the proposed regulations. The letter identifies problems funds may have making minimum distributions required by section 4982 if they hold bonds subject to the contingent debt rules. To prevent those problems the letter suggests adopting rules similar to those governing foreign currency gains and losses under section 988 for purposes of determining the timing of certain income or loss on contingent debt. In addition, the comments propose modifying the harsh treatment the regulations would impose on tax-exempt obligations treated as contingent debt. Written comments on the proposed regulations are due March 16, 1995. Please provide any comments regarding the draft letter to the undersigned by 12:00 Noon on March 14, 1995. (Phone: 202-326-5937; Fax: 202-326-5841) We will keep you informed of further developments. Peter J. Cinquegrani Assistant Counsel - Tax Attachment