securities dealer/broker exception to certain qualified affiliates of active securities dealers or brokers. These rules generally mirror the qualified bank affiliate rules contained in § 1.1296–4(i), except that they extend the securities dealer/broker exception only to qualified securities affiliates that are CFCs, as required by section 1296(b)(3)(A).

F. Income From Nonsecurities Activities

Section 1.1296–6(k) of the proposed regulations provides that income derived from the conduct of activities other than securities activities described in § 1.1296–6(e)(2) and income from assets held for the conduct of such activities are nonpassive only to the extent provided in section 1296.

G. Effective Date

The rules contained in § 1.1296–6 are proposed to be effective for taxable years beginning after September 30, 1993.

III. Look-Through Rules

The proposed regulations do not contain guidance regarding the lookthrough rules of sections 1296(c) and $1296(\bar{b})(2)(C)$ or the grouping rules of section 956A(d). In general, the proposed regulations also do not address whether, and to what extent, look-through principles may apply to characterize income from a partnership as nonpassive and an interest in a partnership as a nonpassive asset, except to the extent that section 475 may treat a partnership as a securities dealer. Because these issues are not unique to financial institutions, the IRS and Treasury will address them in future regulations of more general application. The IRS and Treasury solicit comments on the proper scope and application of look-through and grouping concepts to banks, securities dealers and securities brokers.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be available for public inspection and copying.

A public hearing has been scheduled for August 31, 1995, at 10 a.m., in the Internal Revenue Service Auditorium, 7400 corridor. Because of access restrictions, visitors will not be admitted beyond the Internal Revenue Building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing.

Persons that wish to present oral comments at the hearing must submit written comments and an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by August 10, 1995.

A period of 10 minutes will be allotted to each person for making comments

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these regulations is Ramon Camacho, Office of the Associate Chief Counsel (International). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by removing the entry for Sections 1.1291–10T, 1.1294–1T, 1.1295–1T, and 1.1297–3T and adding entries in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.1291–10T also issued under 26 U.S.C. 1291(d)(2).

Section 1.1294–1T also issued under 26 U.S.C. 1294.

Section 1.1295–1T also issued under 26 U.S.C. 1295.

Section 1.1296–4 also issued under 26 U.S.C. 1296(b)(2)(A).

Section 1.1296–6 also issued under 26 U.S.C. 1296(b)(3)(A).

Section 1.1297–3T also issued under 26 U.S.C. 1297(b)(1). * * *

§1.1291-0T [Redesignated as §1.1291-0]

Par. 2. Section 1.1291–0T is redesignated as § 1.1291–0.

Par. 3. Newly designated § 1.1291–0 is amended as follows:

- 1. The section heading for newly designated § 1.1291–0 is revised.
- 2. The introductory language for newly designated § 1.1291–0 is revised.
- 3. Entries for §§ 1.1296–4 and 1.1296–6 are added in numerical order.

The revisions and additions read as follows:

§1.1291–0 Passive foreign investment companies—table of contents.

This section lists headings under sections 1291, 1294, 1296 and 1297 of the Internal Revenue Code.

§ 1.1296-4 Characterization of certain banking income of foreign banks as nonpassive.

- (a) General rule.
- (b) Active bank.
- (1) U.S. licensed banks.
- (2) Other foreign banks.
- (c) Licensing requirements.
- (d) Deposit-taking requirements.
- (1) General rule.
- (2) Deposit.
- (3) Substantiality of deposits.
- (e) Lending activities test.
- (f) Banking income.
- (1) General rule.
- (2) Banking activities.
- (g) Certain restricted reserves.
- (h) Customer relationship.
- (i) Income earned by qualified bank affiliates.
- (1) General rule.
- (2) Affiliate income requirement.
- (3) Group income requirements.
- (4) Related group.
- (j) Income from nonbank activities.
- (k) Effective date.

§ 1.1296-6 Characterization of certain securities income.

- (a) General rule.
- (b) Active dealer or broker.
- (1) General rule.
- (2) U.S. licensed dealers and brokers.
- (3) Other dealers and brokers.
- (i) General rule.
- (ii) Licensing requirements.
- (c) Securities dealer.
- (d) Securities broker.
- (e) Securities income.
- (1) General rule.
- (2) Securities activities.
- (f) Certain deposits of capital.
- (g) Dealer-customer relationship.
- (h) Investment income.