## Additional Comments Requested

The provisions of section 475 generally apply in determining the taxable income of a dealer that may also be subject to various international provisions of the Code. The Service is considering the possibility of using the definitions contained in section 475 and the regulations thereunder for purposes of various international provisions, except where a modification of the provisions is necessary to carry out the purposes of those international provisions. Comments on this issue also are welcome.

Finally, the Service is considering whether there are additional situations in which securities should not be accounted for under section 475(a). (The temporary and proposed regulations that were published on December 29, 1993, listed some such situations.) For example, a dealer in securities may acquire at original issue and in exchange for property certain noninterest-bearing debt instruments that are not subject to the interest imputation provisions of section 1274 or 483. Because these instruments will seldom appreciate in value, it may be inappropriate to subject them to the mark-to-market regime.

#### Dates of Applicability

The proposed regulations will apply to identifications made, securities acquired, or events occurring, on or after January 4, 1995, or to taxable years beginning on or after January 1, 1995, as appropriate.

## 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 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 Wednesday, May 3, 1995 at 10 a.m. The public hearing will be held in the Internal Revenue Auditorium, 7400 corridor, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC 20224. 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 by April 4, 1995 and submit an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by April 4, 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 authors of these regulations are Robert B. Williams and JoLynn Ricks, Office of Assistant Chief Counsel (Financial Institutions & Products). 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 adding entries in numerical order to read as follows:

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

Section 1.475(a)–1 also issued under 26 U.S.C. 475(e).

Section 1.475(a)-2 also issued under 26 U.S.C. 475(a) and 26 U.S.C. 475(e).

Section 1.475(a)–3 also issued under 26 U.S.C. 475(e).

\* \* \* \* \*

Section 1.475(b)-3 also issued under 26 U.S.C. 475(e).

Section 1.475(b)-4 also issued under 26 U.S.C. 475(b)(2) and 26 U.S.C. 475(e).

Section 1.475(c)–1 also issued under 26 U.S.C. 475(e).

\* \* \* \* \*

Section 1.475(c)-2 also issued under 26 U.S.C. 475(e) and 26 U.S.C. 860G(e).

Section 1.475(e)-1 also issued under 26 U.S.C. 475(e).

\*

\* \*

**Par. 2.** Section 1.475–0 is added to read as follows:

## §1.475–0 Table of contents.

This section lists headings contained in §§ 1.475–0, 1.475(a)–1, 1.475(a)–2, 1.475(a)–3, 1.475(b)–1, 1.475(b)–2, 1.475(b)–3, 1.475(b)–4, 1.475(c)–1, 1.475(c)–2, 1.475(d)–1, and 1.475(e)–1.

#### §1.475–0 Table of contents.

*§* 1.475(a)–1 Mark to market of debt instruments.

- (a) Overview.
- (b) No effect on amount of market discount, acquisition premium, or bond premium.
- (c) Accrual of interest, discount, and premium.
  - (1) Qualified stated interest.
  - (2) General rule regarding accrual of discount.
- (3) Bond premium.
- (d) Mandatory current inclusion of market discount.
- (1) General rule.
- (2) Interaction with section 1278(b).
- (e) Recognition of market discount that accrued before section 475(a) applies to a market discount bond.
  - (1) General rule.
- (2) Examples.
- (f) Worthless debts
- (1) Computation of mark-to-market gain or loss.
- (2) Treatment of mark-to-market gain or loss.
- (g) Additional rules applicable to reservemethod taxpayers.
- (h) Example.

§1.475(a)-2 Mark to market upon

disposition of security by a dealer.

(a) General rule.

(b) Example.

*§*1.475(a)–3 Acquisition by a dealer of a security with a substituted basis.

(a) Scope.

(b) Rules.

§ 1.475(b)–1 Scope of exemptions from mark-to-market requirement.

- (a) Securities held for investment or not held for sale.
- (b) Securities deemed identified as held for investment.
  - (1) In general.
- (2) Control defined.
- (c) Securities deemed not held for investment.
  - (1) General rule for dealers in notional principal contracts and derivatives.
  - (2) Exception for securities not acquired in dealer capacity.

§ 1.475(b)–2 Exemptions—Transitional issues.

(a) Transitional identification.