(b) *Time for identifying a security with a substituted basis.* For purposes of determining the timeliness of an identification under section 475(b)(2), the date that a dealer acquires a security is not affected by whether the dealer's basis in the security is determined, in whole or in part, either by reference to the basis of the security in the hands of the person from whom the security was acquired or by reference to other property held at any time by the dealer. See § 1.475(a)–3 for rules governing how the dealer accounts for such a security if this identification is not made.

(c) Securities involved in integrated transactions under § 1.1275–6—(1) Definitions. The following terms are used in this paragraph (c) with the meanings that are given to them by § 1.1275–6: integrated transaction, legging into, legging out, qualifying debt instrument, § 1.1275–6 hedge, and synthetic debt instrument.

(2) Synthetic debt held by a taxpayer as a result of legging in. If a taxpayer becomes the holder of a synthetic debt instrument as the result of legging into an integrated transaction, then, for purposes of the timeliness of an identification under section 475(b)(2), the synthetic debt instrument is treated as having the same acquisition date as the qualifying debt instrument. A preleg-in identification of the qualifying debt instrument under section 475(b)(2) applies to the synthetic debt instrument as well.

(3) Securities held after legging out. If a taxpayer legs out of an integrated transaction, then, for purposes of the timeliness of an identification under section 475(b)(2), the qualifying debt instrument, or the §1.1275-6 hedge, that remains in the taxpayer's hands is generally treated as having been acquired, originated, or entered into, as the case may be, immediately after the leg-out. If any loss or deduction determined under § 1.1275-6(d)(2)(ii)(B) is disallowed by §1.1275-6(d)(2)(ii)(D) (which disallows deductions when a taxpayer legs out of an integrated transaction within 30 days of legging in), then, for purposes of this section and section 475(b)(2), the qualifying debt instrument that remains in the taxpayer's hands is treated as having been acquired on the same date that the synthetic debt instrument was treated as having been acquired.

Par. 8. Section 1.475(c)–1, as proposed on December 29, 1993 (58 FR 68798), is amended as follows:

1. The heading of the section is revised.

2. Paragraphs (c) and (d) are added. 3. The revision and additions read as follows:

§1.475(c)–1 Definitions—Dealer in securities.

* *

(c) *Dealer-customer relationship.* Whether a taxpayer is transacting business with customers is determined on the basis of all of the facts and circumstances.

(1) [Reserved].

(2) Transactions described in section 475(c)(1)(B). For purposes of section 475(c)(1)(B), the term dealer in securities includes, but is not limited to, a taxpayer that, in the ordinary course of the taxpayer's trade or business, regularly holds itself out as being willing and able to enter into either side of a transaction enumerated in section 475(c)(1)(B). An example of a taxpayer willing to enter into either side of a transaction is a taxpayer willing to enter into an interest rate swap and either pay a fixed interest rate and receive a floating rate or pay a floating rate and receive a fixed rate.

(d) Issuance of life insurance products. A life insurance company that is not otherwise a dealer in securities under section 475(c)(1) does not become a dealer solely because it regularly issues life insurance products to its customers in the ordinary course of a trade or business. For purposes of the preceding sentence, the term life insurance product means a contract that is treated for federal income tax purposes as an annuity, endowment, or life insurance contract. See sections 817 and 7702.

Par. 9. Section 1.475(c)–2, as proposed on December 29, 1993 (58 FR 68798), is amended as follows:

1. The heading of the section is revised.

2. Paragraph (a)(2) is revised.

3. Paragraph (a)(3) is amended by adding "; or" in lieu of the period at the end of that paragraph.

4. Paragraph (a)(4) and paragraph (d) are added.

5. The revisions and additions read as follows:

§1.475(c)-2 Definitions—Security.

(a) * * *

(2) A debt issued by the taxpayer (including a synthetic debt instrument, within the meaning of § 1275–6(b), that the taxpayer is treated as having issued as a result of an integrated transaction under § 1.1275-(6);

(3) * * * ; or

(4) A REMIC residual interest, or an interest or arrangement that is determined by the Commissioner to have substantially the same economic effect, if the residual interest or the

interest or arrangement is acquired on or after January 4, 1995.

* *

(d) Synthetic debt held by a taxpayer as a result of an integrated transaction under § 1.1275-6. If, as the result of an integrated transaction under § 1.1275-6, a taxpayer is treated as the holder of a synthetic debt instrument (within the meaning of § 1.1275-6(b)), the synthetic debt instrument is a security held by the taxpayer within the meaning of section 475(c)(2)(C). See § 1.475(b)-4(c) for rules governing identification of such a synthetic debt instrument for purposes of section 475(b).

Par. 10. Section 1.475(e)–1, as proposed on December 29, 1993 (58 FR 68798), is revised to read as follows:

§1.475(e)-1. Effective dates.

(a) Taxable years ending on or after December 31, 1993. The following sections apply to taxable years ending on or after December 31, 1993: §§1.475(b)-1 (concerning the scope of exemptions from mark-to-market requirement), 1.475(b)-2 (concerning transitional issues relating to exemptions), 1.475(c)-1(a) (concerning sellers of nonfinancial goods and services) and (b) (concerning taxpayers that purchase securities but do not sell more than a negligible portion of the securities), 1.475(c)-2 (concerning the definition of security), and 1.475(d)-1 (concerning the character of gain or loss). Note, however, that, by its terms, \$1.475(c)-2(a)(4) applies only to interests or arrangements that are acquired on or after January 4, 1995, and the integrated transactions to which \$1.475(c)-2(d) applies will exist only after the effective date of §1.1275-6.

(b) *Taxable years beginning on or after January 1, 1995.* The following sections apply to taxable years beginning on or after January 1, 1995: §§ 1.475(a)–1 (concerning mark to market accounting for debt instruments) and 1.475(c)–1(c) (concerning the dealer-customer relationship) and (d) (concerning the issuance of life insurance products).

(c) Securities acquired on or after January 4, 1995. The following sections apply to securities acquired, originated, or entered into on or after January 4, 1995: §§ 1.475(a)–3 (concerning acquisition by a dealer of a security with a substituted basis), 1.475(b)–3(a) (concerning securities the taxpayer expects to contribute to a trust or other entity in a securitization transaction), and 1.475(b)–3(b) (concerning securities received in a securitization transaction).

(d) Events occurring on or after January 4, 1995.