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September 5, 2001

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Lady and Gentlemen:

I enclose New York State Bar Association Tax Section Report No. 997 which discusses proposed regulations promulgated in January 2001

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under the straddle rules of Sections 1092 and 263(g) of the Internal Revenue Code. The proposed regulations would (i) provide rules for determining when and into what property to capitalize certain interest and “carrying costs” incurred in connection with straddle positions, (ii) provide that certain asset-linked debt instruments may constitute straddle positions, and (iii) modify the exception to the straddle rules for “qualified covered call” options.

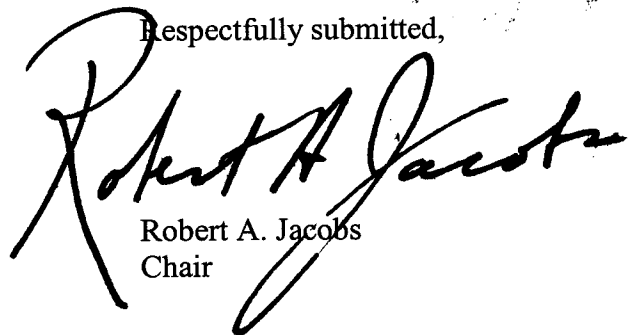
The report focuses primarily on the proposed capitalization regime under Section 263(g). The proposed regime appears to expand the scope of Section 263(g) in a manner that could largely supercede the deferral regime of Section 1092. We question whether this is an appropriate exercise of regulatory authority or more properly a subject of legislation. On a more technical level, the report suggests a number of simplifications, clarifications and means of forestalling potential abuses of the capitalization rules.

For reasons set out in our earlier report on this subject, we support the proposal to treat certain asset-linked debt instruments as potential straddle positions.

We also generally support the modification to the qualified covered call rules as an interim measure, but suggest changes to the definition of persons with whom a “qualifying over-the-counter” option may be entered into.

We would be pleased to provide you with additional help in addressing these matters.

Respectfully submitted,

A large, stylized handwritten signature in black ink, reading "Robert A. Jacobs". The signature is written in a cursive style with a large initial "R".

Robert A. Jacobs
Chair

Enclosure

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