Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Number: **200232028**
Release Date: 8/9/2002
Index Number: 1032.00-00, 1502.13-01

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CC:CORP:B05-PLR-100853-02
Date:
May 6, 2002

In Re:

LEGEND:

Parent =

Company =

Exchange =

Rule A =

Industry =

Services =

Instruments =

State X =

Country Y =

Tax Year =

Date 1 =

Date 2 =

a =

b =

c =

d =

e =

f =

Dear :

This is in reply to a letter dated August 24, 2001 in which rulings are requested with regard to certain federal income tax consequences of proposed activities involving the above taxpayers. The rulings in this letter are based on the facts and representations submitted under penalties of perjury in support of the request. Verification of that information may be required as part of the audit process. The material information is summarized below.

Parent, a State X corporation, is a holding company with subsidiaries primarily engaged in the Industry. The stock of Parent is publicly traded on the Exchange. Parent is the common parent of an affiliated group of corporations that files a consolidated federal income tax return (the "Group").

Company is a State X corporation that is a member of the Group. Company engages in the Industry by providing Services. Company's authorized capital stock consists of a shares of common stock having a par value of $b per share and c shares of preferred stock. As of Date 1, Company had outstanding d shares of its authorized common stock (which includes e shares of its Country Y subsidiary that are exchangeable into shares of Company common stock) and f shares of its authorized preferred stock.

Both Parent and Company regularly compute their federal income tax liability using an accrual method of accounting and Parent files the Group's consolidated federal income tax return on a Tax Year basis.

The management of Parent determined that it will further the business of Parent and Company to facilitate the use of option strategies based upon the price of Parent common stock by Company's customers. Company received a letter relating to Rule A,

dated Date 2, from Exchange (the "Letter") granting Company permission to trade in Parent stock and to enter into certain designated option strategies involving Parent stock on an unsolicited basis. Company proposes to sell a put option on Parent stock to a client and acquire a put option on Parent stock from a third party, with the terms of such option contracts allowing either for physical or cash settlement (the "Proposed Option").

Company and Parent make the following representations:

(i) Company's activities with respect to the Proposed Option will be limited by Exchange procedures.

(ii) Company is a dealer in securities, including the Proposed Option, for purposes of § 475(a) of the Internal Revenue Code of 1986, as amended (the "Code").

(iii) Company will not take the position that the Proposed Option or Parent stock is held for investment or as a hedge with respect to either a security to which § 475(a) does not apply or a position, right to income, or a liability which is not a security in the hands of Company.

(iv) Company's tax basis in the Proposed Option and Parent stock will not be adjusted by reference to the basis of any property or by reference to income, gain, deduction, or loss from other property.

(v) Neither Company, Parent nor any other member of the Group has structured or engaged in any transaction while a member of the Group (or in anticipation of becoming a member of the Group), during the current taxable year or in any taxable year within the preceding 5 taxable years that is open for assessment under § 6501, with a principal purpose of avoiding gain or creating loss on Parent stock, or a position in Parent stock, subject to § 475(a).

(vi) The conduct of Company with respect to the Proposed Option will be similar to Company's conduct with respect to options on the stock of corporations other than Parent, except as required to satisfy Rule A, the Letter and other applicable securities laws, regulations, pronouncements and judicial rulings (each as amended from time to time).

Section 1.1502-13(f)(6)(i) provides that if a member ("M") of a consolidated group recognizes a loss, directly or indirectly, with respect to the stock of its common parent ("P"), the loss will be permanently disallowed and will not reduce M's earnings and profits.

Section 1.1502-13(f)(6)(iii) provides that § 1.1502-13(f)(6)(i) does not apply to

any loss from P stock held by M if M regularly trades in P stock (of the same class) with customers in the ordinary course of its business as a dealer, the gain or loss on the share is taken into account pursuant to § 475(a), and certain other requirements are met.

Section 1.1502-13(f)(6)(iv)(A) provides that the principles of § 1.1502-13(f)(6) (with appropriate adjustments) apply to positions in P stock to the extent that P's gain or loss from an equivalent position would not be recognized under § 1032.

Based solely on the information submitted and the representations set forth above, we hold as follows:

(1) In the case of the Proposed Option, Company meets the requirements of § 1.1502-13(f)(6)(iii) for the exception to the general rule of § 1.1502-13(f)(6)(i).

(2) Section 1.1502-13(f)(6)(i) and (iv) does not disallow Company's recognized losses with respect to the Proposed Option, including (i) the written put option and (ii) the acquired put option (in both the case of cash or physical settlement of the Proposed Option), and does not prevent such losses from reducing Company's earnings and profits.

No opinion is expressed about the tax treatment of the above mentioned transactions under any other provision of the Code or regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the above transactions that are not specifically covered in the above rulings.

A copy of this letter must be attached to the federal income tax return of each taxpayer involved for the taxable year in which the proposed transactions covered by this ruling letter are consummated.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely yours,
Charles Whedbee
Senior Technician Reviewer, Branch 5
Office of Associate Chief Counsel
(Corporate)