



Securities Industry Association

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Re: Withholding With Respect to Sales of Debt
Obligations
Between Interest Payment Dates

Dear Sirs and Madam:

The Securities Industry Association (the "SIA") submits this letter in response to the request for comments on proposed and final Treasury Regulations requiring withholding on interest accrued when debt obligations are sold between interest payment dates.

Proposed Treasury Regulation Section 1.144-3(b)(2) would require a withholding agent to withhold 30% tax on the amount representing accrued stated interest on debt obligations that are sold between interest payment dates. The withholding is eliminated or reduced if the foreign beneficial owner provides a withholding certificate. A similar requirement exists in recently enacted Treasury Regulation Section 1.1441-2(b)(3) for payments of accrued OID.

The SIA is in the process of reviewing the impact of these regulations on the securities industry. We have found that because of the variations between securities firms and the complexities of clearance and settlement, this review process is a significant effort. For example, the flow of securities, funds, and transaction information must be examined not just between two parties (i.e, the securities firm and their foreign client) but our analysis must also consider any custodian for the broker, any custodian for the client, the Federal Reserve or Depository Trust Company, a clearing organization such as Government Securities Clearance Corporation or National Securities Clearing Corporation, and the beneficial owners of the securities. Additionally, there are operational differences between the government and corporate bond settlement and clearance processes that must be examined.

SIA has learned that the IRS and Treasury are anxious to finalize these regulations. We request, however, that the IRS consider the results of our review, which will be completed in the next few weeks, before finalizing the regulations. SIA would like to work with the IRS to devise a solution that would not cause significant disruption to the clearance and settlement process of government and corporate debt obligations. We would be pleased to provide further information regarding the nature, speed, automation and operational issues surrounding debt clearance and settlement.

Sincerely,

Steve Neiss
Chairman,
Tax Compliance and Administration Committee