

Dear

This ruling is in reply to a letter dated May 13, 2011, submitted by your authorized representatives on behalf of the Taxpayer. Taxpayer has requested that the conversion of its X Bonds and Y Bonds (collectively, "the Bonds") to a new term rate period and the setting of a new interest rate upon such conversion, all pursuant to the terms of the Bonds, will not result in a deemed exchange of the Bonds pursuant to section 1001 of the Internal Revenue Code of 1986, as amended (the "Code").

FACTS

Taxpayer issued X Bonds on Date 1 and Y Bonds on Date 2. The Bonds were and are intended to qualify as build America bonds within the meaning of section 54AA of the Code.

The X Bonds have a principal amount of \$A and a final maturity date of Date 3. The X Bonds bear interest during the initial rate period at B% per annum. The initial rate period is a term rate period that ends on Date 4. The Y Bonds have a principal amount of \$C and a final maturity date of Date 3. They bear interest during the initial rate period at D% per annum. The initial rate period is a term rate period that ends on Date 5. Taxpayer has the option to terminate the initial rate periods prior to Date 4 or Date 5, as the case may be.

The interest rate setting provisions of the X Bonds and the Y Bonds are identical. At the end of each interest rate period, including the initial rate period, Taxpayer can continue the same rate period, change to a new rate period as specified in the terms of the Bonds, or redeem the Bonds. More specifically, the Bonds are subject to optional redemption at the end of each interest rate period. On any optional redemption date, Taxpayer may designate a new interest rate period. The interest rate periods that may be designated are a daily rate period, a weekly rate period, a term rate period, and a flexible rate period.

For Bonds in a daily rate period, a weekly rate period, or a term rate period, such period remains in effect unless and until the Bonds are redeemed or the option to change interest rate periods is exercised. For Bonds in a flexible rate period, the flexible segment is set by a remarketing agent at the end of the immediately preceding flexible segment. For all Bonds, at the beginning of each interest rate period after the initial rate period, the interest rate is set by the remarketing agent as the lowest rate which would enable the remarketing agent to sell such Bonds for delivery on the

effective date of such period at a price (without regard to accrued interest) equal to 100% of the principal amount thereof, but in no event higher than the maximum rate (E% per annum).

The Bonds shall be subject to mandatory tender by holders on any date when the option to change interest rate periods is exercised, at the end of any term rate period or flexible segment, and on certain other dates. Bonds tendered and not redeemed are remarketed by the remarketing agent.

At the end of the initial rate period for the X Bonds and the Y Bonds, Taxpayer intends to set a new term rate period which may be equal to the time until the final stated maturities of the respective Bonds, or a shorter period, pursuant to the terms of the respective Bonds.

LAW AND ANALYSIS

Section 1001 of the Code provides for the recognition of gain or loss on the sale or exchange of property. Section 1.1001-1(a) of the Income Tax Regulations (the "Regulations") provides that gain or loss is realized from the exchange of property for other property differing materially either in kind or in extent.

Section 1.1001-3(b) provides that a debt instrument differs materially in kind or in extent if it has undergone a "significant modification." A significant modification of a debt instrument results in a "new" debt instrument that is deemed to be exchanged for the unmodified debt instrument.

Section 1.1001-3(c) provides rules for determining whether a change in the legal rights or obligations of a debt instrument is a modification. Pursuant to section 1.1001-3(c)(1)(i), a modification means any alteration, including any deletion or addition, in whole or in part, of a legal right or obligation of the issuer or a holder of a debt instrument, whether the alteration is evidenced by an express agreement (oral or written), conduct of the parties, or otherwise.

Section 1.1001-3(c)(1)(ii) provides that an alteration of a legal right or obligation that occurs by operation of the terms of a debt instrument is not a modification. Section 1.1001-3(c)(2)(iii) provides that an alteration that results from the exercise of an option provided to an issuer or a holder to change a term of a debt instrument is a modification, even if the alteration occurs by operation of the terms of a debt instrument, unless the option is unilateral.

Section 1.1001-3(c)(3) provides that an option is unilateral only if, under the terms of an instrument or under applicable law, (i) there does not exist at the time the option is exercised, or as a result of the exercise, a right of the other party to alter or terminate the instrument or put the instrument to a person who is related to the issuer; (ii) the exercise of the option does not require the consent or the approval of the other party, a related party, or a court or arbitrator; and (iii) the exercise of the option does not require consideration, except as further described therein.

Section 1.1001-3(e) provides rules for determining whether a modification is significant.

The terms of the Bonds provide Taxpayer with the option to change interest rate periods and, if that option is exercised by Taxpayer, the Bonds shall be subject to mandatory tender by holders. The mandatory tender is not a right of the holders to alter or terminate the Bonds under section 1.1001-3(c)(3)(i). As a result, the Taxpayer's option to change interest rate periods is unilateral and the exercise of that option by Taxpayer is not a modification for purposes of section 1.1001-3.

CONCLUSION

Based on the facts and representations submitted by the Taxpayer, we conclude that the conversion of the Bonds to a new term rate period (or to one of the other interest rate periods provided for under the terms of the Bonds) and the setting of a new interest rate upon such conversion, all pursuant to the terms of the Bonds, will not result in a modification of the Bonds for purposes of section 1.1001-3.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent. A copy of this letter must be attached to any income tax return to which it is relevant.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Diana Imholtz
Diana Imholtz
Chief, Branch 1
Office of Associate Chief Counsel
(Financial Institutions and Products)

Enclosures: Copy of this letter
Copy for section 6110 purposes