

achieved and still have any net premium gain result in what is essentially ordinary income, by treating the premium income allocated to the lapsed option as a short-term capital gain. Where this is done, any capital loss from the straddle transaction attributable to the side exercised (where the stock is disposed of in the same year in which the lapse of the option occurs) can be offset against the short-term capital gain attributable to the premium income from the side of the option which lapsed. Should the short-term capital gain in such a case exceed the capital loss, it will still be treated in essentially the same manner as ordinary income.

As a result, your committee's amendment provides that any gain on the lapse of an option granted by a taxpayer as a part of the straddle is to be treated as a short-term capital gain. This treatment is not to be available, however, in the case of persons who hold securities for sale to customers in the ordinary course of their trades or businesses. This treatment is made inapplicable in the case of such persons because their security transactions in any event are generally required to be treated as resulting in ordinary income. This treatment is applied to securities and not to commodity futures since there is no evidence that a problem has been created in this latter area.

The change made by your committee's amendment applies to all straddle transactions entered into after January 25, 1965, the effective date of the ruling which first required the allocation of the straddle premium between the put and the call components.

*d. Changes made by the bill.*—The amendment inserts a new subsection (c) to section 1234 of the code. The first paragraph of this new subsection provides that gain derived from the lapse of an option written as a part of a straddle (as defined in new section 1234(c)(3)) is, in effect, to be short-term capital gain, as defined in section 1222(1) of existing law. Thus, such gains will be added to any other short-term capital gains, to be netted against short-term capital losses, with the excess to be netted against any net long-term capital losses. Any remaining short-term capital gains will generally be taxed as ordinary income.

Paragraph (2) of the new section 1234(c) provides that this provision does not apply to a person who holds securities (including options to acquire or sell securities) for sale to customers in the ordinary course of his trade or business.

Paragraph (3) of the new subsection defines a "straddle" as a simultaneously granted combination of an option to buy (a "call") and an option to sell (a "put") the same quantity of a security at the same price during the same period of time.

If a person grants a multiple option (a put plus a call plus one or more additional puts or calls) it is intended that the grantor of the multiple option must identify in his records which two of the component options constitute the straddle, if it is not clear from the options themselves. It is contemplated that the method of identification will be specified in regulations issued by the Secretary of the Treasury or his delegate. If there is no identification by the writer, this provision relating to straddles is not to apply. As a result, in such a case the gain on the lapsed option (or options) would result in ordinary income.

A corporate security for purposes of the definition of a straddle is the same as defined in section 1236(c) of the code—i.e., stocks, bonds,