

ROYAL BANK OF CANADA  
 Form FWP  
 February 11, 2019

RBC Capital Markets® Filed Pursuant to Rule 433  
 Registration Statement No. 333-227001

The information in this preliminary terms supplement is not complete and may be changed.

Preliminary Terms

Supplement

Subject to Completion:

Dated February 8, 2019

Pricing Supplement \$

Dated February \_\_, 2019 Fixed Coupon Notes

to the Product due March 3, 2023

Prospectus Supplement, Linked to the S&P 500® Index

the Prospectus

Supplement and

Prospectus, Each Dated

September 7, 2018

Royal Bank of Canada is offering Fixed Coupon Notes (“Notes”) linked to the S&P 500 Index (the “Reference Asset”). The Notes offered are senior unsecured obligations of Royal Bank of Canada, will pay a semi-annual coupon at the interest rate specified below, and will have the terms described in the documents described above, as supplemented or modified by this terms supplement, as set forth below.

The Notes do not guarantee any return of principal at maturity. All payments on the Notes are subject to our credit risk.

Investing in the Notes involves a number of risks. See “Risk Factors” beginning on page S-1 of the prospectus supplement dated September 7, 2018, “Additional Risk Factors Specific to the Notes” beginning on page PS-4 of the product prospectus supplement dated September 7, 2018 and “Selected Risk Considerations” beginning on page P7 of this terms supplement.

The Notes will not constitute deposits insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality. The notes are not subject to conversion into our common shares under subsection 39.2(2.3) of the Canada Deposit Insurance Corporation Act. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this terms supplement is truthful or complete. Any representation to the contrary is a criminal offense.

Issuer:	Royal Bank of Canada	Stock Exchange Listing:	None
Trade Date:	February 28, 2019	Principal Amount:	\$1,000 per Notes
Issue Date:	March 5, 2019	Coupon Payments:	The coupon will be paid in semi-annual installments at the rate of [4.85%-5.05%] per annum (to be determined on the Trade Date)
Buffer Level:	80.00% of the Initial Level		
Initial Level:	The closing level of the Reference Asset on the Trade Date.		
Final Level:	The closing level of the Reference Asset on the Valuation Date.		
Payment at Maturity (if held to	For each \$1,000 principal amount, \$1,000 plus any accrued and unpaid interest at maturity, unless the Final Level of the Reference Asset is less than the Buffer Level.		

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maturity): If the Final Level of the Reference Asset is less than the Buffer Level, then the investor will receive at maturity, instead of the principal amount, in addition to accrued and unpaid interest, an amount in cash equal to the sum of:

(a) \$1,000 plus (b) the product of (i) \$1,000 times (ii) the sum of the Percentage Change plus 20.00% times (iii) the Downside Multiplier:

$\$1,000 + [\$1,000 \times (\text{Percentage Change} + 20.00\%) \times 1.25]$

Investors could lose some or all of their investment at maturity if there has been a decline in the trading price of the Reference Asset below its Buffer Level.

Cusip	Coupon Rate	Principal Amount	Price to Public	Agent's Commission	Proceeds to Royal Bank of Canada
78013XZG6	[4.85%-5.05%] per annum (to be determined on the Trade Date)	\$	100%	\$0 0%	\$ 100%

The initial estimated value of the Notes as of the date of this terms supplement is \$995.82 per \$1,000 in principal amount, which is less than the price to public. The final pricing supplement relating to the Notes will set forth our estimate of the initial value of the Notes as of the Trade Date, which will not be less than \$975.82 per \$1,000 in principal amount. The actual value of the Notes at any time will reflect many factors, cannot be predicted with accuracy, and may be less than this amount. We describe our determination of the initial estimated value in more detail below.

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Fixed Coupon Notes  
 Linked to the S&P 500® Index

## SUMMARY

The information in this “Summary” section is qualified by the more detailed information set forth in this terms supplement, the product prospectus supplement, the prospectus supplement, and the prospectus.

General:	This terms supplement relates to an offering of Fixed Coupon Notes (“Notes”) linked to the S&P 500® Index (the “Reference Asset”)
Issuer:	Royal Bank of Canada (“Royal Bank”)
Trade Date (Pricing Date):	February 28, 2019
Issue Date:	March 5, 2019
Valuation Date:	February 28, 2023
Maturity Date:	March 3, 2023
Denominations:	Minimum denomination of \$1,000, and integral multiples of \$1,000 thereafter.
Designated Currency:	U.S. Dollars
Coupon Rate:	[4.85%-5.05%] per annum (to be determined on the Trade Date)
Coupon Payment Dates:	The coupon will be paid in semi-annual installments on September 3, 2019, March 3, 2020, September 3, 2020, March 3, 2021, September 3, 2021, March 3, 2022, September 6, 2022 and the Maturity Date. If any such date is not a business day, the payment will be made on the next subsequent business day, and no additional interest will accrue as a result of that postponement.
Record Dates:	The record date for each Coupon Payment Date will be the date one business day prior to that scheduled Coupon Payment Date; provided, however, that any coupon payable at maturity will be payable to the person to whom the payment at maturity will be payable.
Percentage Change:	Expressed as a percentage, an amount equal to:
Initial Level:	The closing level of the Reference Asset on the Trade Date.
Buffer Level:	80.00% of the Initial Level
Final Level:	The closing level of the Reference Asset on the Valuation Date.
Downside Multiplier:	1.25
Payment at Maturity (if held to maturity):	For each \$1,000 in principal amount of the Notes, the investor will receive \$1,000 plus any accrued and unpaid interest at maturity, unless the Final Level of the Reference Asset is less than the Buffer Level. If the Final Level of the Reference Asset is less than the Buffer Level, then the investor will receive at maturity, instead of the principal amount of the Notes, in addition to any accrued and

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unpaid interest, an amount in cash equal to the sum of:

(a) \$1,000 plus (b) the product of (i) \$1,000 times (ii) the sum of the Percentage Change plus 20.00% times (iii) the Downside Multiplier:

$\$1,000 + [\$1,000 \times (\text{Percentage Change} + 20.00\%) \times 1.25]$

Investors in the Notes could lose some or all of their investment at maturity if the Final Level is less than the Buffer Level.

Calculation  
Agent:

RBC Capital Markets, LLC

Secondary  
Market:

RBC Capital Markets, LLC (or one of its affiliates), though not obligated to do so, may maintain a secondary market in the Notes after the Issue Date. The amount that an investor may receive upon sale of the Notes prior to maturity may be less than their principal amount.

Listing:

None

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Settlement: DTC global note

Terms  
Incorporated in  
the  
Master Note: All of the terms appearing above the item captioned “Secondary Market” on pages P2 and P3 of this terms supplement and the terms appearing under the caption “General Terms of the Notes” in the product prospectus supplement.

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#### ADDITIONAL TERMS OF YOUR NOTES

You should read this terms supplement together with the prospectus dated September 7, 2018, as supplemented by the prospectus supplement dated September 7, 2018 and the product prospectus supplement dated September 7, 2018, relating to our Senior Global Medium-Term Notes, Series H, of which these Notes are a part. Capitalized terms used but not defined in this terms supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this terms supplement will control. The Notes vary from the terms described in the product prospectus supplement in several important ways, including as to the payment of the Coupon Payments. You should read this terms supplement carefully.

This terms supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Risk Factors” in the prospectus supplement dated September 7, 2018 and “Additional Risk Factors Specific to the Notes” in the product prospectus supplement dated September 7, 2018, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the SEC website at [www.sec.gov](http://www.sec.gov) as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus dated September 7, 2018:

<https://www.sec.gov/Archives/edgar/data/1000275/000121465918005973/196181424b3.htm>

Prospectus Supplement dated September 7, 2018:

<https://www.sec.gov/Archives/edgar/data/1000275/000121465918005975/f97180424b3.htm>

Product Prospectus Supplement ERN-EI-1 dated September 7, 2018:

<https://www.sec.gov/Archives/edgar/data/1000275/000114036118038044/form424b5.htm>

Our Central Index Key, or CIK, on the SEC website is 1000275. As used in this terms supplement, “we,” “us,” or “our” refers to Royal Bank of Canada.

Royal Bank of Canada has filed a registration statement (including a product prospectus supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this terms supplement relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, Royal Bank of Canada, any agent or any dealer participating in this offering will arrange to send you the product prospectus supplement, the prospectus supplement and the prospectus if you so request by calling toll-free at 1-877-688-2301.

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#### HYPOTHETICAL EXAMPLES OF AMOUNTS PAYABLE AT MATURITY

The examples set forth below are provided for illustration purposes only. The assumptions in each of the examples are purely hypothetical and do not relate to the actual performance of the Reference Asset. The hypothetical terms do not purport to be representative of every possible scenario concerning increases or decreases in the Final Level of the Reference Asset relative to its Initial Level. We cannot predict the actual performance of the Reference Asset. The table below illustrates the Payment at Maturity of the notes (excluding the final Coupon Payment) for a hypothetical range of performance for the Reference Asset, assuming an Initial Level of 100.00, a Buffer Level of 80.00 and an initial investment of \$1,000. Hypothetical Final Levels are shown in the first column on the left. The second column shows the Payment at Maturity for a range of Final Levels on the Valuation Date. The third column shows the Payment at Maturity as a percentage of the principal amount. The last column shows the hypothetical Payment at Maturity per \$1,000 in principal amount of the Notes.

Hypothetical Final Level of the Reference Asset	Percentage Change	Payment at Maturity as Percentage of Principal Amount	Hypothetical Payment at Maturity
150.00	50.00%	100.00%	\$1,000.00
130.00	30.00%	100.00%	\$1,000.00
120.00	20.00%	100.00%	\$1,000.00
110.00	10.00%	100.00%	\$1,000.00
100.00	\$0.00%	100.00%	\$1,000.00
90.00	-10.00%	100.00%	\$1,000.00
85.00	-15.00%	100.00%	\$1,000.00
80.00	-20.00%	100.00%	\$1,000.00
79.99	-20.01%	99.99%	\$999.88
75.00	-25.00%	93.75%	\$937.50
70.00	-30.00%	87.50%	\$875.00
60.00	-40.00%	75.00%	\$750.00
50.00	-50.00%	62.50%	\$625.00
30.00	-70.00%	37.50%	\$375.00
0.00	-100.00%	0.00%	\$0.00

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#### Hypothetical Examples of Amounts Payable at Maturity

The following hypothetical examples illustrate how the total returns set forth in the table above are calculated.

Example 1: The value of the Reference Asset increases by 25% from the Initial Level of 100.00 to the Final Level of 125.00. Because the Final Level of the Reference Asset on the Valuation Date is greater than the Buffer Level, the investor receives at maturity, in addition to any accrued and unpaid Coupon Payments on the Notes, a cash payment of \$1,000.00 per security, despite the 25% appreciation in the value of the Reference Asset.

Example 2: The value of the Reference Asset decreases by 15% from the Initial Level of 100.00 to the Final Level of 85.00. Because the Final Level of the Reference Asset is greater than the Buffer Level of 80.00, the investor receives at maturity, in addition to any accrued and unpaid Coupon Payments on the Notes, a cash payment of \$1,000 per security, despite the 15% decline in the value of the Reference Asset.

Example 3: The value of the Reference Asset decreases by 50% from the Initial Level of \$100.00 to the Final Level of 50.00. Because the Final Level of the Reference Asset is less than the Buffer Level, we will pay an amount in cash that will be calculated as follows:

$$\$1,000 + [\$1,000 \times (-50\% + 20\%) \times 1.25] = \$1,000 - \$375 = \$625.00$$

\* \* \*

The Payments at Maturity shown above are entirely hypothetical; they are based on market value for the Reference Asset that may not be achieved on the Valuation Date and on assumptions that may prove to be erroneous. The actual market value of your Notes on the Maturity Date or at any other time, including any time you may wish to sell your Notes, may bear little relation to the hypothetical Payments at Maturity shown above, and those amounts should not be viewed as an indication of the financial return on an investment in the Notes or on an investment in the Reference Asset. Please read “Additional Risk Factors Specific to the Notes” and “Hypothetical Returns on Your Notes” in the accompanying product prospectus supplement.

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## SELECTED RISK CONSIDERATIONS

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to investing directly in the Reference Asset. These risks are explained in more detail in the section “Additional Risk Factors Specific to the Notes” in the product prospectus supplement. In addition to the risks described in the prospectus supplement and the product prospectus supplement, you should consider the following:

**Principal at Risk** — Investors in the Notes could lose all or a substantial portion of their principal amount if there is a decline in the level of the Reference Asset between the Trade Date and the Valuation Date. If the Final Level is less than the Buffer Level, you will lose 1.25% of the principal amount for each 1% that the Final Level is less than the Buffer Level. The Coupon Payments received on the Notes may not be sufficient to compensate for any such loss.

**Your Return May Be Lower than the Return on a Conventional Debt Security of Comparable Maturity** — The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of Royal Bank.

**Payments on the Notes Are Limited** — The payments on the Notes will be limited to the Coupon Payments.

Accordingly, your return may be less than the return would be if you made a direct investment in the securities represented by the Reference Asset, or in a security directly linked to the positive performance of the Reference Asset.

**Payments on the Notes Are Subject to Our Credit Risk, and Changes in Our Credit Ratings Are Expected to Affect the Market Value of the Notes** — The Notes are our senior unsecured debt securities. As a result, your receipt of the Coupon Payments and the amount due at maturity is dependent upon our ability to repay its obligations on the applicable payment dates. This will be the case even if the level of the Reference Asset increases after the Trade Date. No assurance can be given as to what our financial condition will be at any time during the term of the Notes.

**There May Not Be an Active Trading Market for the Notes-Sales in the Secondary Market May Result in Significant Losses** — There may be little or no secondary market for the Notes. The Notes will not be listed on any securities exchange. RBCCM and our other affiliates may make a market for the Notes; however, they are not required to do so. RBCCM or any other affiliate of ours may stop any market-making activities at any time. Even if a secondary market for the Notes develops, it may not provide significant liquidity or trade at prices advantageous to you. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and asked prices for your Notes in any secondary market could be substantial.

**Owning the Notes Is Not the Same as Owning the Securities Represented by the Reference Asset** — The return on your Notes is unlikely to reflect the return you would realize if you actually owned the securities represented by the Reference Asset. For instance, you will not receive or be entitled to receive any dividend payments or other distributions on those securities during the term of your Notes. As an owner of the Notes, you will not have voting rights or any other rights that holders of the Reference Asset may have. Furthermore, the Reference Asset may appreciate substantially during the term of the Notes, while your potential return will be limited to the Coupon Payments.

**The Initial Estimated Value of the Notes Will Be Less than the Price to the Public** — The initial estimated value set forth on the cover page and that will be set forth in the final pricing supplement for the Notes does not represent a minimum price at which we, RBCCM or any of our affiliates would be willing to purchase the Notes in any secondary market (if any exists) at any time. If you attempt to sell the Notes prior to maturity, their market value may be lower than the price you paid for them and the initial estimated value. This is due to, among other things, changes in the levels of the Reference Asset, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to the public of the estimated costs relating to our hedging of the Notes. These factors, together with various

credit, market and economic factors over the term of the Notes, are expected to reduce the price at which you may be able to sell the Notes in any secondary market and will affect the value of the Notes in complex and unpredictable ways. Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your Notes prior to maturity may be less than your original purchase price, as any such sale price would not be expected to include the hedging costs relating to the Notes. In addition to bid-ask spreads, the value of the Notes determined by RBCCM for any secondary market price is expected to be based on the secondary rate rather than the internal funding rate used to price the Notes and determine the initial estimated value. As a result, the secondary price will be less than if the internal funding rate was used. The Notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Notes to maturity.

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The Initial Estimated Value of the Notes on the Cover Page of this Terms Supplement and that We Will Provide in the Final Pricing Supplement Are Estimates Only, Calculated as of the Time the Terms of the Notes Are Set — The initial estimated value of the Notes will be based on the value of our obligation to make the payments on the Notes, together with the mid-market value of the derivative embedded in the terms of the Notes. See “Structuring the Notes” below. Our estimates are based on a variety of assumptions, including our credit spreads, expectations as to dividends, interest rates and volatility, and the expected term of the Notes. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the Notes or similar securities at a price that is significantly different than we do.

The value of the Notes at any time after the Trade Date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Notes in any secondary market, if any, should be expected to differ materially from the initial estimated value of your Notes.

**Inconsistent Research** — Royal Bank or its affiliates may issue research reports on securities that are, or may become, components of the Reference Asset. We may also publish research from time to time on financial markets and other matters that may influence the level of the Reference Asset or the value of the Notes, or express opinions or provide recommendations that may be inconsistent with purchasing or holding the Notes or with the investment view implicit in the Notes or the Reference Asset. You should make your own independent investigation of the merits of investing in the Notes and the Reference Asset.

**Market Disruption Events and Adjustments** — The payment at maturity is subject to adjustment as described in the product prospectus supplement. For a description of what constitutes a market disruption event as well as the consequences of that market disruption event, see “General Terms of the Notes—Market Disruption Events” in the product prospectus supplement.

**Uncertain Tax Treatment** — The U.S. federal income tax treatment of an investment in the Notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service (the “IRS”) regarding the tax treatment of an investment in the Notes, and the IRS or a court may not agree with the tax treatment described in this document.

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#### U.S. FEDERAL TAX INFORMATION

The following section supplements the discussion of U.S. federal income taxation in the accompanying prospectus and prospectus supplement, and supersedes the discussion in the product supplement under the caption “Supplemental Discussion of U.S. Federal Income Tax Consequences.” It applies only to those holders who are not excluded from the discussion of U.S. federal income taxation in the accompanying prospectus. This discussion applies only to U.S. holders and non-U.S. holders that will purchase the Notes upon original issuance and will hold the Notes as capital assets for U.S. federal income tax purposes. This discussion does not apply to holders subject to special rules including accrual method taxpayers subject to special tax accounting rules under Section 451(b) of the Code. You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the Notes in your particular circumstances, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

We intend to treat coupon payments as U.S. source income for U.S. federal income tax purposes.

We will not attempt to ascertain whether the issuer of any of the component stocks included in the Reference Asset would be treated as a “passive foreign investment company” within the meaning of Section 1297 of the Internal Revenue Code of 1986, as amended (the “Code”), or a “U.S. real property holding corporation” within the meaning of Section 897 of the Code. If the issuer of one or more of such stocks were so treated, certain adverse U.S. federal income tax consequences could possibly apply to a holder. You should refer to any available information filed with the SEC and other authorities by the issuers of the component stock included in the Reference Asset and consult your tax advisor regarding the possible consequences to you in this regard, if any.

**NO STATUTORY, JUDICIAL OR ADMINISTRATIVE AUTHORITY DIRECTLY DISCUSSES HOW THE NOTES SHOULD BE TREATED FOR U.S. FEDERAL INCOME TAX PURPOSES. AS A RESULT, THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES ARE UNCERTAIN. BECAUSE OF THE UNCERTAINTY, YOU SHOULD CONSULT YOUR TAX ADVISOR IN DETERMINING THE U.S. FEDERAL INCOME TAX AND OTHER TAX CONSEQUENCES OF YOUR INVESTMENT IN THE NOTES, INCLUDING THE APPLICATION OF STATE, LOCAL OR OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.**

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat your Notes as an investment unit consisting of (i) a non-contingent debt instrument issued by us to you (the “Debt Portion”) and (ii) a put option with respect to the Reference Stock written by you and purchased by us (the “Put Option”). The balance of this disclosure assumes this treatment is proper and will be respected for U.S. federal income tax purposes. Pursuant to this treatment, [ ]% of each stated interest payment ([ ]% in total) will be treated as an interest payment and [ ]% of each stated interest payment will be treated as payment for the Put Option for U.S. federal income tax purposes.

#### Treatment as an Investment Unit

If your Notes are properly treated as an investment unit consisting of a Debt Portion and Put Option, it is likely that the Debt Portion of your Notes would be treated as having been issued for the principal amount of the Notes (if you are an initial purchaser) and that interest payments on the Notes would be treated in part as payments of interest and in part as payments for the Put Option. Amounts treated as interest would be included in income in accordance with your regular method of accounting for interest for U.S. federal income tax purposes. Amounts treated as payment for the Put Option would be deferred and accounted for upon the sale, call, or maturity of the Notes, as discussed below.

If you were to receive a cash payment of the full principal amount of your Notes upon the call or maturity of your Notes, such payment would likely be treated as (i) payment in full of the principal amount of the Debt Portion (which would not result in the recognition of gain or loss if you are an initial purchaser of your Notes) and (ii) the lapse of the Put Option which would likely result in your recognition of short-term capital gain in an amount equal to the amount paid to you for the Put Option and deferred as described above. If you were to receive a cash payment upon the

maturity of your Notes (excluding cash received as a coupon) of less than the full principal amount of your Notes, such payment would likely be treated as (i) payment in full of the principal amount of the Debt Portion (which would not result in the recognition of gain or loss if you are an initial purchaser of your Notes) and (ii) the cash settlement of the Put Option pursuant to which you paid to us an amount equal to the excess of the principal amount of your Notes over the amount that you received upon the maturity of your Notes (excluding cash received as a coupon) in order to settle the Put Option. If the aggregate amount paid to you for the Put Option and deferred as described above is greater than the amount you are deemed to have paid to us to settle the Put Option, you will likely recognize short-term capital gain in an amount that is equal to such excess. Conversely, if the amount paid to you for the Put Option and deferred as described above is less than the amount you are deemed to have paid to us to settle the Put Option, you will likely recognize short-term capital loss in an amount that is equal to such difference. The deductibility of capital losses is subject to limitations.

Upon the sale of your Notes, you would be required to apportion the value of the amount you receive between the Debt Portion and Put Option on the basis of the values thereof on the date of the sale. You would recognize gain or loss with respect to the Debt Portion in an amount equal to the difference between (i) the amount apportioned to the Debt Portion and (ii) your adjusted U.S.

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federal income tax basis in the Debt Portion (which would generally be equal to the principal amount of your Notes if you are an initial purchaser of your Notes). Except to the extent attributable to accrued but unpaid interest with respect to the Debt Portion, such gain or loss would be long-term capital gain or loss if your holding period is greater than one year. The amount of cash that you receive that is apportioned to the Put Option (together with any amount of premium received in respect thereof and deferred as described above) would be treated as short-term capital gain. If the value of the Debt Portion on the date of the sale of your Notes is in excess of the amount you receive upon such sale, you would likely be treated as having made a payment (to the purchaser in the case of a sale) equal to the amount of such excess in order to extinguish your rights and obligations under the Put Option. In such a case, you would likely recognize short-term capital gain or loss in an amount equal to the difference between the premium you previously received in respect of the Put Option and the amount of the deemed payment made by you to extinguish the Put Option. The deductibility of capital losses is subject to limitations.

Alternative Characterizations

There is no judicial or administrative authority discussing how your Notes should be treated for U.S. federal income tax purposes. Therefore, other treatments would also be reasonable and the IRS might assert that treatment other than that described above is more appropriate.

For example, it is possible that the Notes could be treated as a single debt instrument. Because the Notes have a term that exceeds one year, such a debt instrument would be subject to the special tax rules governing contingent payment debt instruments. If the Notes are so treated, you would be required to accrue interest income over the term of the Notes based upon the yield at which we would issue a non-contingent fixed-rate debt instrument with other terms and conditions similar to the Notes. You would recognize gain or loss upon the sale, call, or maturity of the Notes in an amount equal to the difference, if any, between the amount you receive at such time and your adjusted basis in the Notes. In general, your adjusted basis in the Notes would be equal to the amount you paid for the Notes, increased by the amount of interest you previously accrued with respect to the Notes. Any gain you recognize upon the sale, call, or maturity of the Notes would generally be ordinary income and any loss recognized by you at such time would generally be ordinary loss to the extent of interest you included in income in the current or previous taxable years with respect to the Notes, and thereafter would be capital loss. The deductibility of capital losses is subject to limitations. In addition, the IRS has released a notice that may affect the taxation of holders of “prepaid forward contracts” and similar instruments. According to the notice, the IRS and the U.S. Treasury Department are actively considering whether the holder of such instruments should be required to accrue ordinary income on a current basis. While it is not clear whether the Notes would be viewed as similar to such instruments, it is possible that any future guidance could materially and adversely affect the tax consequences of an investment in the Notes, possibly with retroactive effect. Because of the absence of authority regarding the appropriate tax characterization of the Notes, it is possible that the IRS could seek to characterize the Notes in a manner that results in tax consequences to you that are different from those described above. For example, it is possible that you may be req