STATUTORY INSTRUMENTS

1998 No. 3177

TAXES

The European Single Currency (Taxes) Regulations 1998

Made - - - -	*17th December 1998*
Laid before the House of Commons - - - -	*17th December 1998*
Coming into force - -	*1st January 1999*

The Treasury, in exercise of the powers conferred on them by sections 93(1) and (6), 94(1), (2), (3) and (11) and 95 (1), (2) and (3) of the Finance Act 1993(**1**) and section 163 of the Finance Act 1998(**2**), hereby make the following Regulations:

PART I

INTRODUCTORY

Citation and commencement

1. These Regulations may be cited as the European Single Currency (Taxes) Regulations 1998 and shall come into force on 1st January 1999.

Interpretation

2.—(1) In these Regulations unless the context otherwise requires—

"commodity or financial futures" has the meaning given by subsection (2)(a) of section 143 of the 1992 Act, and references in these Regulations to commodity or financial futures include references to a commodity or financial futures contract referred to in subsection (7)(a) or (b);

"debt", other than a debt on a security, includes a debt owed by a bank which is not in sterling and which is represented by a sum standing to the credit of a person in an account in the bank;

"derivative" means any commodity or financial futures or an option;

"ecu" shall be construed in accordance with section 95(5) of the Finance Act 1993;

"euro" means the single currency adopted or proposed to be adopted as its currency by a member State in accordance with the Treaty establishing the European Community;

(**1**) 1993 c. 34.
(**2**) 1998 c. 36.

"euroconversion" has the meaning given by regulation 3;

"long-term capital asset" and "long-term capital liability" have the meaning given in relation to both those expressions by section 143(4) of the Finance Act 1993;

"member State" means a member State other than the United Kingdom;

"participating member State" means a member State that adopts the euro as its currency;

"qualifying contract" shall be construed in accordance with sections 147, 147A and 148 of the Finance Act 1994(**3**);

"reconventioning" in relation to a relevant asset means a change, consequent on simple redenomination, in the terms of the asset as a result of which the new terms become aligned to the prevailing terms of equivalent marketable relevant assets denominated in euro;

"relevant asset" means a debt (whether or not a debt on a security), a long-term capital asset, a long-term capital liability, an option, a qualifying contract, or any commodity or financial futures;

"renominalisation" in relation to a relevant asset means a change, consequent on simple redenomination, in the minimum nominal amount in which the asset can be held or traded to a new round amount;

"security" has the meaning given by section 132(3)(b) of the 1992 Act;

"simple redenomination" means the conversion of the currency in which an asset, liability, contract or instrument is expressed from the currency of a participating member State into euro, and any rounding of the resulting amount to the nearest euro cent;

"the Taxes Act" means the Income and Corporation Taxes Act 1988(**4**);

"the 1992 Act" means the Taxation of Chargeable Gains Act 1992(**5**).

(2) In these Regulations references to an option, without more, are references to an option to which section 144 or 144A(**6**) of the 1992 Act applies.

Definition of euroconversion

3.—(1) "Euroconversion" means —

(a) in relation to any currency, or an amount expressed in any currency, of a participating member State, the conversion or restating of that currency or that amount into euro and any rounding of the resulting amount within a euro;

(b) in relation to any asset, liability, contract or instrument—

(i) the simple redenomination of that asset, liability, contract or instrument, or

(ii) in the case of a relevant asset, the simple redenomination of that asset accompanied by either or both of renominalisation and reconventioning, or

(iii) the substitution (whether by way of exchange, conversion, replacement or otherwise) for the asset, liability, contract or instrument of an equivalent replacement asset, liability, contract or instrument.

(2) An equivalent replacement asset, liability, contract or instrument means an asset, liability, contract or instrument whose amount, terms and conditions are identical to what it is reasonable to assume would be the amount, terms and conditions of the original asset, liability, contract or instrument were it to undergo a simple redenomination, or (in the case of a relevant asset) a simple redenomination accompanied by either or both of renominalisation and reconventioning.

(**3**) 1994 c. 9. Section 147A was inserted by section 101(2) of the Finance Act 1996 (c. 8).
(**4**) 1988 c. 1.
(**5**) 1992 c. 12.
(**6**) Section 144A was inserted by section 96 of the Finance Act 1994.

(3) For the purposes of paragraphs (1) and (2) a simple redenomination is accompanied (in the case of a relevant asset) by renominalisation or reconventioning if either—

(a) the renominalisation or reconventioning is effected simultaneously, or

(b) it is effected within a period of time following the simple redenomination which is such as to enable it reasonably to be inferred that the renominalisation or reconventioning is associated with the simple redenomination.

PART II

DEDUCTIBILITY OF COSTS OF EUROCONVERSION OF SHARES AND OTHER SECURITIES

Interpretation

4. References in this Part of these Regulations to a euroconversion in relation to shares and other securities of a company ("the original shares and other securities") are references to a euroconversion that is effected solely by the issue of shares and other securities in replacement of the original shares and other securities.

Trading companies

5. Costs incurred in respect of a euroconversion of its shares or other securities by a company carrying on a trade shall be deductible in computing the amount of its profits chargeable to corporation tax under Case I of Schedule D as if those costs constituted money wholly and exclusively laid out or expended for the purposes of the trade within section 74(1)(a)(**7**) of the Taxes Act.

Investment companies and insurance companies—deemed expenses of management

6.—(1) Costs which—

(a) are incurred by an investment company or a company carrying on life assurance business in respect of a euroconversion of its shares or other securities, and

(b) except where the costs are referable to life assurance business of a company whose profits in relation to that business are charged to tax otherwise than under Case I of Schedule D, are not deductible under regulation 5,

shall be treated as sums disbursed as expenses of management to which section 75(1) of the Taxes Act (deduction in computing total profits of an investment company for an accounting period) applies.

(2) Costs incurred by a company carrying on life assurance business in respect of a euroconversion of its shares or other securities shall be deductible in computing the profits of that company chargeable to corporation tax under Case VI of Schedule D as if those costs were allowances falling to be made under Part II of the Capital Allowance Act 1990(**8**) and referred to in subsection (4) of section 434D(**9**) of the Taxes Act; and accordingly those costs shall be apportioned in accordance with that subsection between the different classes of life assurance business carried on by that company.

(**7**) Section 74(1) was amended by section 144(2) of the Finance Act 1994 and by paragraph 1 of Schedule 7 to the Finance Act 1998.
(**8**) 1990 c. 1.
(**9**) Section 434D was inserted by paragraph 23 of Schedule 8 to the Finance Act 1995 (c. 4).

(3) Section 76 of the Taxes Act (expenses of management: insurance companies) shall have effect as if the reference in subsection (1)(d)(**10**) of that section (disallowance of certain expenses as expenses of management) to expenses referable to different classes of life assurance business included a reference to costs apportioned to those classes of business under paragraph (2).

(4) In this regulation—

"investment company" has the meaning given by section 130 of the Taxes Act;

"life assurance business" shall be construed in accordance with section 431(2) of the Taxes Act.

PART III

EXCHANGE GAINS AND LOSSES, INTEREST RATE AND CURRENCY CONTRACTS AND OPTIONS, DEBT CONTRACTS AND OPTIONS, AND RELEVANT DISCOUNTED SECURITIES

Deferral of unrealised gains

7.—(1) Where, as a result of a euroconversion of a long-term capital asset or of a long-term capital liability, that asset ("the original long-term capital asset") or that liability ("the original long-term capital liability") is replaced by a new long-term capital asset or a new long-term capital liability—

(a) the new long-term capital asset or the new long-term capital liability shall be treated as if it were the same asset or liability as the original long-term capital asset or the original long-term capital liability, acquired when the original long-term capital asset or the original long-term capital liability was acquired; and

(b) any gain which accrued as respects the original long-term capital asset or the original long-term capital liability for the accrual period in which the euroconversion of that asset or liability took place shall, without prejudice to regulation 2 of the Exchange Gains and Losses (Deferral of Gains and Losses) Regulations 1994(**11**) (settlement and replacement of debts), be deemed to be unrealised, and sections 139 to 143 (apart from section 143(7)) of the Finance Act 1993 shall have effect accordingly.

(2) In paragraph (1) "accrual period" shall be construed in accordance with section 158(4) of the Finance Act 1993.

Interest rate contracts (including options)—change in rate of interest

8. Where, as a result of the adoption of the euro by a member State—

(a) there is a change in the variable rate of interest resulting in a change in the variable rate payment specified in a contract ("the original contract") in accordance with subsection (2) of section 149 of the Finance Act 1994, and

(b) the change in the variable rate payment is such as to result in the rescission of the original contract and the making of a new contract,

the new contract shall be treated for the purposes of that section as if it were the same contract as the original contract, made when the original contract was made.

(**10**) Section 76(1)(d) was amended by paragraph 1 of Schedule 7 to the Finance Act 1990 (c. 29), paragraph 1 of Schedule 7, and Part V of Schedule 19, to the Finance Act 1991 (c. 31), and paragraph 7 of Schedule 8 to the Finance Act 1995.
(**11**) S.I. 1994/3228, amended by S.I. 1996/1348.

Currency contracts (including options)—change in rate of interest

9. Where, as a result of the adoption of the euro by a member State—

(a) there is a change in the rate of interest specified in a currency contract ("the original contract") in accordance with subsection (3) of section 150 of the Finance Act 1994, and

(b) the change is such as to result in the rescission of the original contract and the making of a new contract,

the new contract shall be treated for the purposes of that section as if it were the same contract as the original contract, made when the original contract was made.

Currency contracts (including options)—conversion into euro

10.—(1) This regulation applies in a case where, as a result of the adoption of the euro by member States—

(a) the amounts of both the currencies specified in a currency contract referred to in section 126 of the Finance Act 1993 ("section 126"), or in a currency contract referred to in section 150 of the Finance Act 1994 ("section 150"), are converted into euro, and

(b) the effect is that the currency contract ("the original currency contract") is rescinded and replaced by a new contract which, but for the adoption of the euro, would have been a currency contract.

(2) This regulation also applies in a case where—

(a) one of the currencies ("the former currency") specified in a currency contract referred to in section 126 or section 150 is in a currency other than euro and the other currency is either in euro or expressed to be in the single currency,

(b) as a result of the adoption of the euro by a member State, the former currency is converted into euro, and

(c) the effect is that the currency contract ("the original currency contract") is rescinded and replaced by a new contract which, but for the adoption of the euro, would have been a currency contract.

(3) In each of the cases referred to in paragraphs (1) and (2) the new contract shall be treated for the purposes of section 126 or, as the case may be, section 150 as if it were a currency contract and were the same contract as the original currency contract, made when the original currency contract was made.

Debt contracts (including options)—conversion into euro

11.—(1) Where as a result of the adoption of the euro by a member State—

(a) there is a euroconversion of the loan relationship to which, under a debt contract, a qualifying company has any entitlement, or is subject to any duty, to become a party, or

(b) a qualifying company has any entitlement, or is subject to any duty, to become treated as a person with rights and liabilities corresponding to those of a party to a loan relationship and there is a euroconversion of any of those rights and liabilities, and

(c) in either of the cases referred to in sub-paragraphs (a) and (b) the effect is that the original debt contract is rescinded and replaced by a new debt contract,

the new debt contract shall be treated for the purposes of section 150A of the Finance Act 1994(**12**) (debt contracts and options) as if it were the same contract as the original debt contract, made when the original debt contract was made.

(**12**) Section 150A was inserted by Schedule 12 to the Finance Act 1996.

(2) In paragraph (1)—

"debt contract" has the meaning given by section 150A(1) and (2) of the Finance Act 1994;

"loan relationship" has the meaning given by section 81 of the Finance Act 1996, read with section 150A(10) of the Finance Act 1994;

"qualifying company" shall be construed in accordance with section 154 of the Finance Act 1994.

Exchange or conversion of relevant discounted securities

12.—(1) A euroconversion of relevant discounted securities that is effected solely by means of an exchange or conversion of those securities shall be treated as not constituting either—

(a) a transfer of those securities within the meaning of paragraph 4 of Schedule 13 to the Finance Act 1996 ("Schedule 13"), or

(b) a conversion of those securities for the purposes of paragraph 5 of Schedule 13.

(2) The relevant discounted securities ("the new securities") resulting from the exchange or conversion referred to in paragraph (1) shall be deemed for the purposes of Schedule 13 to have been acquired for the amount resulting from the formula—

$$A \quad B$$

where—

A is the amount equal to the acquisition cost of the relevant discounted securities replaced by the new securities, and

B is the amount of any cash payment received by a person in respect of the euroconversion, to the extent that that amount does not exceed A.

(3) Where a cash payment is received by a person in respect of relevant discounted securities as a result of a euroconversion of those securities which—

(a) involves a simple redenomination of those securities, accompanied by either or both of renominalisation and reconventioning as a consequence of that simple redenomination, and

(b) is effected otherwise than by means of—

(i) a transfer of those securities, or

(ii) an exchange or conversion of those securities,

those securities shall be deemed for the purposes of Schedule 13 to have been acquired for the amount resulting from the formula—

$$C - D$$

where—

C is the amount equal to the acquisition cost of the relevant discounted securities, and

D is the amount of the cash payment received, to the extent that that amount does not exceed C.

(4) Where—

(a) the amount of the cash payment referred to in the description of B in paragraph (2) exceeds the amount referred to in the description of A in that paragraph, or

(b) the amount of the cash payment referred to in the description of D in paragraph (3) exceeds the amount referred to in the description of C in that paragraph,

an amount equal to the excess in either case shall constitute a profit realised by a person from the discount on a relevant discounted security for the purposes of paragraph 1 of Schedule 13 (charge to tax on realised profit comprised in discount).

(5) In this regulation "relevant discounted security" has the meaning given by paragraph 3 of Schedule 13.

PART IV

AGREEMENTS FOR SALE AND REPURCHASE OF SECURITIES

Interpretation

13. In this Part of these Regulations—

"capital payment" means any payment on the euroconversion of securities other than any interest, dividend or other annual payment payable in respect of the securities;

"original owner" and "interim holder" shall be construed in accordance with section 730A(1)(**13**) of the Taxes Act;

"transferor" shall be construed in accordance with sections 727A(1) and 737A(1)(**14**) of the Taxes Act.

Replacement of securities in a euroconversion

14.—(1) This regulation applies in a case where—

(a) there is an agreement for the sale of securities, and

(b) there is a euroconversion of the securities to which the agreement relates ("the old securities"), effected wholly or in part by the issue of new securities to replace them.

(2) The new securities which replace the old securities shall be regarded for the purposes of sections 727A(1), 730A(1) and 737A(1) of the Taxes Act, and section 263A(1)(**15**) of the 1992 Act, as similar securities in relation to the old securities.

(3) In paragraph (2) the reference to similar securities shall be construed in accordance with section 727A(4), 730B(4) or 737B(6), as the case may be.

Payment or benefit received by interim holder on euroconversion

15.—(1) This regulation applies in a case where—

(a) there is an arrangement for the sale and repurchase of securities to which section 263A(1) of the 1992 Act applies,

(b) a capital payment, but for the arrangement, would be received by the original owner on the euroconversion of those securities,

(c) the interim holder is not required under the arrangement to pay to the original owner an amount representative of that capital payment, and an amount representative of that capital payment is not required under the arrangement to be taken into account in computing the repurchase price of the securities, and

(d) the amount of the capital payment would not exceed 500 euros.

(**13**) Sections 730A and 730B were inserted by section 80(1) of the Finance Act 1995.
(**14**) Section 727A was inserted by section 79(1) of the Finance Act 1995, and sections 737A to 737C were inserted by section 122 of the Finance Act 1994.
(**15**) Section 263A was inserted by section 80(4) of the Finance Act 1995.

(2) The interim holder shall not be regarded, for the purposes of section 263A of the 1992 Act, as receiving a benefit under subsection (3)(b) of that section equal to the amount of the capital payment.

Payment deemed to be made by interim holder on euroconversion

16.—(1) This regulation applies in a case where—

(a) there is an arrangement for the sale and repurchase of securities to which section 730A(1) of the Taxes Act, or section 263A(1) of the 1992 Act, applies, or to which section 730A(1) of the Taxes Act would apply if the sale price and the repurchase price were different,

(b) there is a euroconversion of those securities prior to their being repurchased, and

(c) it is reasonable to assume that an amount that is representative of a capital payment in respect of the euroconversion is taken into account in computing the repurchase price of those securities.

(2) The amount referred to in paragraph (1)(c) shall be treated as if it were a separate representative payment in respect of the euroconversion made by the interim holder to the person required or entitled under the arrangement to repurchase the securities.

(3) The repurchase price of the securities shall be treated, for the purposes of section 730A of the Taxes Act and the 1992 Act, as increased by an amount equal to the amount of the separate payment treated as made by paragraph (2).

Renominalisation resulting in new minimum denomination in which securities can be held or traded

17.—(1) This regulation applies in a case where—

(a) there is an arrangement for the sale and repurchase of securities to which section 730A(1) or 737A(1) of the Taxes Act, or section 263A(1) of the 1992 Act, applies, or to which section 730A(1) of the Taxes Act would apply if the sale price and the repurchase price were different,

(b) there is a euroconversion of those securities prior to their being repurchased,

(c) the aggregate nominal value (expressed in euros) of the securities sold, or of securities issued to replace them in a euroconversion is, as a result of renominalisation, not a whole multiple of the new minimum denomination in which those securities can be traded at the time of repurchase under the arrangement,

(d) securities the aggregate nominal value of which is equal to the largest whole multiple of the new minimum denomination which does not exceed the aggregate nominal value referred to in sub-paragraph (c) are required under the arrangement to be sold back to the original owner or the transferor or a person connected with him, and

(e) the interim holder is required under the arrangement to pay to the original owner or transferor, or person connected with him, an amount which either—

(i) is equal to the amount of what would, but for the arrangement, have been the proceeds of disposal of the remainder of the securities on the renominalisation received by the original owner, or

(ii) is equal to the value, at the time of the repurchase of securities pursuant to the arrangement, of the remainder if the remainder could still be held at that time though not traded.

(2) Where this regulation applies, the requirement for payment of the amount specified in paragraph (1)(e) is to to be regarded for the purposes of sections 727A, 730A and 737A of the Taxes Act, and section 263A of the 1992 Act, as equivalent to a requirement on the original owner, transferor or person connected with him to repurchase the remainder of the securities.

(3) The value referred to in paragraph (1)(e)(ii) is the appropriate proportion (based on nominal value) of the market value of the minimum amount of the original securities that, at the time of the repurchase of the securities pursuant to the arrangement, could be traded.

(4) Where the amount calculated in accordance with sub-paragraph (e) of paragraph (1) does not exceed 500 euros, and the arrangement does not require payment of a sum equal to this amount, this regulation shall have effect as if the amount calculated in accordance with that sub-paragraph were nil and the requirement specified in that sub-paragraph were satisfied.

(5) Where, in a case to which paragraph (1)(a) to (d) applies—

(a) no amount is paid as mentioned in paragraph (1)(e) by the interim holder to the original owner, transferor or person connected with him in respect of securities that, as a result of the renominalisation, could not be traded, but

(b) it is reasonable to assume that an amount that is representative of an amount that could have been paid as mentioned in sub-paragraph (a) was taken into account in computing the repurchase price of the securities,

that amount shall be treated as if it were a separate payment made by the interim holder to the original owner, transferor or person connected with him that is representative of a capital payment on the euroconversion of the securities, and the repurchase price of the securities shall be treated as increased by an amount equal to the amount of that separate payment so treated as made.

Payment made or deemed to be made by interim holder in respect of euroconversion—chargeable gains consequences

18.—(1) This regulation applies in a case where—

(a) there is an arrangement for the sale and repurchase of securities to which section 263A(1) of the 1992 Act applies, and

(b) as a result of a euroconversion of those securities, a payment representative of a capital payment is made, or treated under regulation 16(2) or 17(5) as made ("deemed payment"), by the interim holder to the original owner or the transferor or a person connected with him.

(2) The payment or deemed payment shall be treated, for the purposes of the 1992 Act—

(a) where the original owner and the repurchaser are the same person, as a capital payment received by the original owner in respect of the euroconversion of the securities concerned on such date as, on a just and reasonable view, may be inferred from the terms of the arrangement to be the date when the original owner would, but for the arrangement, have received a capital payment in respect of which the payment or deemed payment is made;

(b) where the original owner and the repurchaser are not the same person and so far as concerns persons other than the interim holder, as reducing the repurchase price; and

(c) as deductible by the interim holder in computing any capital gain arising—

(i) on a disposal of the securities received by the interim holder under the arrangement, or

(ii) where there has been an exchange of those securities as a result of the euroconversion, on a disposal of the securities received by the interim holder in exchange for the original securities received by him under the arrangement.

Euroconversion—loan relationships consequences

19.—(1) Paragraph 15 of Schedule 9 to the Finance Act 1996 (loan relationships—repo transactions and stock-lending) shall have effect as if the definition of "repo or stock-lending arrangements" in sub-paragraph (3) of that paragraph also included provision under an agreement

or series of agreements for the original owner, or a person connected with him, subsequently to be or become entitled, or required, to have transferred to him either—

(a) the rights accruing on a euroconversion of the loan relationship, or

(b) where the rights include a payment on the euroconversion, other than interest, of an amount which, when aggregated with all other payments on the euroconversion of loan relationships with equivalent rights which are the subject of the same repo or stock-lending arrangement, results in an aggregate amount that does not exceed 500 euros, either the whole of those rights or the whole of those rights apart from that payment.

(2) In paragraph (1)(b) "equivalent rights" shall be construed in accordance with paragraph 15(4) of Schedule 9 to the Finance Act 1996.

PART V

STOCK LENDING ARRANGEMENTS

Interpretation

20. In this Part of these Regulations—

"capital payment" means any payment on the euroconversion of securities other than any interest, dividend or other annual payment payable in respect of the securities;

"stock lending arrangement", "borrower" and "lender" have the meanings given by section 263B(1)(**16**) of the 1992 Act.

Deemed capital payment

21.—(1) This regulation applies in a case where—

(a) there is a stock lending arrangement in relation to securities,

(b) a capital payment resulting from the euroconversion of those securities would, but for the arrangement, be received by the lender, and

(c) the stock lending arrangement does not include a requirement for the borrower to make a payment to the lender that is representative of the capital payment referred to in sub-paragraph (b).

(2) Subject to paragraph (3), the lender shall be treated, for all purposes of the Taxes Acts, as having received a capital payment in respect of the euroconversion of the securities concerned—

(a) on such date as it is reasonable to assume would have been, but for the arrangement, the first date on which the lender could have received the payment mentioned in paragraph (1)(b), and

(b) in an amount equal to the amount of the payment he could have received.

(3) Paragraph (2) shall not apply where the amount of the capital payment that the lender could have received is less than 500 euros.

Renominalisation resulting in new minimum amount in which securities can be held or traded

22.—(1) This regulation applies in a case where—

(a) there is a stock lending arrangement in relation to securities,

(**16**) Section 263B was inserted by paragraph 5(1) of Schedule 10 to the Finance Act 1997 (c. 16).

(b) there is a euroconversion of those securities prior to their being transferred back to the lender under the arrangement,

(c) the aggregate nominal value (expressed in euros) of the securities transferred to the borrower under the arrangement, or of the securities issued to replace them in the euroconversion, is, as a result of renominalisation, not a whole multiple of the new minimum denomination in which those securities can be traded at the time of the transfer of securities back to the lender under the arrangement,

(d) securities the aggregate nominal value of which is equal to the largest whole multiple of the new minimum denomination which does not exceed the aggregate nominal value referred to in sub-paragraph (c) are transferred back to the lender pursuant to the arrangement, and

(e) the borrower is required under the arrangement to pay to the lender an amount which either—

(i) is equal to the amount of what would, but for the arrangement, have been the proceeds of disposal of the remainder of the securities on the renominalisation received by the lender, or

(ii) is equal to the value, at the time of the transfer of securities back to the lender under the arrangement, of the remainder of the securities if the remainder could still be held at that time though not traded.

(2) Where this regulation applies, the requirement for payment of the amount specified in paragraph (1)(e) is to be regarded for the purposes of section 263B of the 1992 Act as a requirement on the part of the borrower to transfer the remainder of the securities back to the lender.

(3) The value referred to in paragraph (1)(e)(ii) is the appropriate proportion (based on nominal value) of the market value of the minimum amount of the original securities that, at the time of the transfer back of securities to the lender under the arrangement, could be traded.

(4) Where the value, or proceeds of disposal, of the remainder of the securities referred to in sub-paragraph (e) of paragraph (1) does not exceed 500 euros, and the arrangement does not require payment of a sum equal to this amount, this regulation shall have effect as if the amount calculated in accordance with that sub-paragraph were nil and the requirement specified in that sub-paragraph were satisfied.

Payment made by borrower to lender in respect of euroconversion—chargeable gains consequences

23.—(1) This regulation applies in a case where—

(a) there is a stock lending arrangement in relation to securities, and

(b) a payment representative of a capital payment resulting from a euroconversion of those securities is made by the borrower to the lender.

(2) The representative payment shall be treated, for all purposes of the Taxes Acts—

(a) as a capital payment received by the lender in respect of the euroconversion of the securities concerned on such date as it is reasonable to assume would have been, but for the arrangement, the first date on which the lender could have received the capital payment, and

(b) as deductible by the borrower in computing any capital gain arising—

(i) on a disposal of the securities received by the borrower under the arrangement, or

(ii) where the euroconversion is effected by means of an exchange of securities, on a disposal of the securities received by the borrower in exchange for the original securities received by him under the arrangement.

PART VI

REPURCHASES AND STOCK LENDING— STAMP DUTY AND STAMP DUTY RESERVE TAX

Interpretation

24. In this Part of these Regulations "capital payment" means any payment on the euroconversion of securities other than any interest, dividend or other annual payment payable in respect of the securities.

Replacement of stock in a euroconversion

25.—(1) This regulation applies in a case where—

(a) there is an arrangement involving the transfer of stock to which subsection (1)(a) of section 80C of the Finance Act 1986(**17**) (repurchases and stock lending—exemption from stamp duty) applies, and

(b) there is a euroconversion of that stock ("the old stock"), effected wholly or in part by the issue of new stock to replace the old stock.

(2) The new stock shall be regarded, for the purposes of section 80C of the Finance Act 1986, as stock of the same kind and amount as the old stock.

Replacement of chargeable securities in a euroconversion

26.—(1) This regulation applies in a case where—

(a) there is an arrangement involving the transfer of chargeable securities to which subsection (1)(a) of section 89AA of the Finance Act 1986(**18**) (repurchases and stock lending—exemption from stamp duty reserve tax) applies, and

(b) there is a euroconversion of those chargeable securities ("the old chargeable securities"), effected wholly or partly by the issue of new chargeable securities to replace the old chargeable securities.

(2) The new chargeable securities shall be regarded, for the purposes of section 89AA of the Finance Act 1986, as chargeable securities of the same kind and amount as the old chargeable securities.

Payment or benefit received by transferee of stock on euroconversion

27.—(1) This regulation applies in a case where—

(a) there is an arrangement involving the transfer of stock to which subsection (1) of section 80C of the Finance Act 1986 applies,

(b) a capital payment would, but for the arrangement, be received by the person referred to as B in that section or by his nominee on the euroconversion of that stock,

(c) neither the person referred to as A in that section nor his nominee is required under the arrangement to pay to B or to B's nominee an amount equivalent to the amount of that capital payment, and an amount equivalent to the amount of that capital payment is not

(**17**) 1986 c. 41. Section 80C was inserted by section 98(1) of the Finance Act 1997 and repealed by Part VII of Schedule 18 to that Act with effect from the day to be appointed under section 111 of the Finance Act 1990.

(**18**) Section 89AA was inserted by section 103(1) of the Finance Act 1997 and repealed by Part VII of Schedule 18 to that Act with effect from the day to be appointed under section 111 of the Finance Act 1990.

required under the arrangement to be taken into account in computing the price of stock to be transferred to B or his nominee under the arrangement, and

(d) the amount of the capital payment would not exceed 500 euros.

(2) A shall not be regarded, for the purposes of section 80C of the Finance Act 1986, as a person to whom a benefit consisting of an amount equal to the capital payment referred to in paragraph (1) accrues as mentioned in subsection (4)(b) of that section.

Payment or benefit received by transferee of chargeable securities on euroconversion

28.—(1) This regulation applies in a case where—

(a) there is an arrangement involving the transfer of chargeable securities to which subsection (1) of section 89AA of the Finance Act 1986 applies,

(b) a capital payment would, but for the arrangement, be received by the person referred to as Q in that section or by his nominee on the euroconversion of those chargeable securities,

(c) neither the person referred to as P in that section nor his nominee is required under the arrangement to pay to Q or to Q's nominee an amount equivalent to the amount of that capital payment, and an amount equivalent to the amount of that capital payment is not required under the arrangement to be taken into account in computing the price of the chargeable securities to be transferred to Q or his nominee under the arrangement, and

(d) the amount of the capital payment would not exceed 500 euros.

(2) P shall not be regarded, for the purposes of section 89AA of the Finance Act 1986, as a person to whom a benefit consisting of an amount equal to the capital payment referred to in paragraph (1) accrues as mentioned in subsection (4)(b) of that section.

Renominalisation resulting in new minimum denomination in which stock can be held or traded

29.—(1) This regulation applies in a case where—

(a) there is an arrangement involving the transfer of stock to which subsection (1) of section 80C of the Finance Act 1986 applies,

(b) there is a euroconversion of that stock prior to the transfer of stock under the arrangement by A or his nominee to B or his nominee as mentioned in subsection (1)(b) of that section,

(c) the aggregate nominal value (expressed in euros) of the stock transferred by B to A or his nominee as mentioned in subsection (1)(a) of that section, or of stock issued to replace that stock in a euroconversion is, as a result of renominalisation, not a whole multiple of the new minimum denomination in which that stock can be traded at the time of the transfer of stock referred to in sub-paragraph (b),

(d) stock the aggregate nominal value of which is equal to the largest whole multiple of the new minimum denomination which does not exceed the aggregate nominal value referred to in sub-paragraph (c) is required under the arrangement to be transferred by A or his nominee to B or his nominee, and

(e) A or his nominee is required under the arrangement to pay to B or his nominee an amount which either—

(i) is equal to the amount of what would, but for the arrangement, have been the proceeds of disposal of the remainder of the stock on the renominalisation received by B, or

(ii) is equal to the value, at the time of the transfer of stock referred to in sub-paragraph (b), of the remainder of the stock if the remainder could still be held at that time though not traded.

(2) Where this regulation applies, the requirement for payment of the amount specified in paragraph (1)(e) is to be regarded, for the purposes of section 80C of the Finance Act 1986, as equivalent to a requirement for the remainder of the stock to be transferred by A or his nominee to B or his nominee.

(3) The value referred to in paragraph (1)(e)(ii) is the appropriate proportion (based on nominal value) of the market value of the minimum amount of the original stock that, at the time of the transfer of stock referred to in sub-paragraph (b), could be traded.

(4) Where the amount calculated in accordance with sub-paragraph (e) of paragraph (1) does not exceed 500 euros, and the arrangement does not require payment of a sum equal to this amount, this regulation shall have effect as if the amount calculated in accordance with that sub-paragraph were nil and the requirement specified in that sub-paragraph were satisfied.

Renominalisation resulting in new minimum denomination in which chargeable securities can be held or traded

30.—(1) This regulation applies in a case where—

(a) there is an arrangement involving the transfer of chargeable securities to which subsection (1) of section 89AA of the Finance Act 1986 applies,

(b) there is a euroconversion of those chargeable securities prior to the transfer of chargeable securities under the arrangement by P or his nominee to Q or his nominee as mentioned in subsection (1)(b) of that section,

(c) the aggregate nominal value (expressed in euros) of the chargeable securities transferred by Q to P or his nominee as mentioned in subsection (1)(a) of that section, or of chargeable securities issued to replace those chargeable securities in a euroconversion is, as a result of renominalisation, not a whole multiple of the new minimum denomination in which those chargeable securities can be traded at the time of the transfer of chargeable securities referred to in sub-paragraph (b),

(d) chargeable securities the aggregate nominal value of which is equal to the largest whole multiple of the new minimum denomination which does not exceed the aggregate nominal value referred to in sub-paragraph (c) are required under the arrangement to be transferred by P or his nominee to Q or his nominee, and

(e) P or his nominee is required under the arrangement to pay to Q or his nominee an amount which either—

(i) is equal to the amount of what would, but for the arrangement, have been the proceeds of disposal of the remainder of the chargeable securities on the renominalisation received by Q, or

(ii) is equal to the value, at the time of the transfer of chargeable securities referred to in sub-paragraph (b), of the remainder of the chargeable securities if the remainder could still be held at that time though not traded.

(2) Where this regulation applies, the requirement for payment of the amount specified in paragraph (1)(e) is to be regarded, for the purposes of section 89AA of the Finance Act 1986, as equivalent to a requirement for the remainder of the chargeable securities to be transferred by P or his nominee to Q or his nominee.

(3) The value referred to in paragraph (1)(e)(ii) is the appropriate proportion (based on nominal value) of the market value of the minimum amount of the original chargeable securities that, at the time of the transfer of chargeable securities referred to in paragraph (1)(b), could be traded.

(4) Where the amount calculated in accordance with sub-paragraph (e) of paragraph (1) does not exceed 500 euros, and the arrangement does not require payment of a sum equal to this amount, this regulation shall have effect as if the amount calculated in accordance with that sub-paragraph were nil and the requirement specified in that sub-paragraph were satisfied.

PART VII

ACCRUED INCOME SCHEME

Interpretation

31. In this Part of these Regulations—

"the accrued amount" has the meaning given by section 713(4) of the Taxes Act;

"the accrued income provisions" means sections 710 to 728 of the Taxes Act;

"interest period" shall be construed in accordance with section 711(3) and (4) of the Taxes Act except that, where securities are issued on an exchange of securities to which regulation 32 (exchange of securities resulting from euroconversion) applies, paragraph (a) of section 711(3) of that Act (commencement of interest period) shall have effect for the purposes of regulation 33 as if the reference in that paragraph to the day following that on which securities are issued were a reference to the day on which they are issued;

"the rebate amount" has the meaning given by section 713(5) of the Taxes Act;

"securities" has the meaning given by section 710(2) to (4)(**19**) of the Taxes Act;

"transfer" in relation to a transfer of securities has the meaning given by subsection (5), read with subsection (13), of section 710 of the Taxes Act.

Disapplication of accrued income provisions in respect of an exchange or conversion of securities resulting from a euroconversion

32. An exchange or conversion of securities that arises solely as a result of actions to effect a euroconversion of those securities shall not constitute, or be treated as, a transfer of those securities for the purposes of the accrued income provisions.

Disapplication of variable interest rate provision in certain circumstances

33.—(1) This regulation applies in a case where, solely to provide for actions reasonably required to effect a euroconversion of a security—

(a) there may be a change in the rate of interest carried by the security in relation to the interest period in which the euroconversion occurs, or

(b) there may be a change in the rate of interest carried by the security in relation to subsequent periods but, throughout the subsequent periods, the new rate of interest falls within one, and one only, of the categories specified in paragraphs (a) to (c) of section 717(2) of the Taxes Act, or

(c) there may be a change in the rate of interest as mentioned in sub-paragraph (a) and a change in the rate of interest as mentioned in sub-paragraph (b).

(**19**) Section 710 was amended by paragraph 2 of Schedule 10 to the Finance Act 1991, paragraph 14(36) of Schedule 10 to the Taxation of Chargeable Gains Act 1992, paragraph 5 of Schedule 8 to the Finance (No. 2) Act 1992 (c. 48), and section 87(5) of the Finance Act 1995.

(2) The provision for change in the rate of interest referred to in paragraph (1)(a) or (b) shall not cause the security concerned to be one to which section 717 of the Taxes Act applies.

Calculation of accrued amount or rebate amount in the event of a euroconversion of securities

34.—(1) This regulation applies in a case where—

(a) there is a transfer of securities at any time in an interest period, and

(b) at any time in that interest period there is a euroconversion of the securities transferred in that period.

(2) The accrued amount or, as the case may be, the rebate amount arising in respect of the transferred securities on the transfer shall be such amount as is just and reasonable.

Treatment of capital sum receivable on euroconversion of securities

35.—(1) This regulation applies in a case where—

(a) otherwise than as a result of a transfer of securities that is not an exchange or conversion of securities to which regulation 32 applies, a person becomes entitled in an interest period to a capital sum in connection with a euroconversion of securities, and

(b) any part of that sum is, on a just and reasonable view—

(i) attributable to a reduction in the interest payable on those securities, or

(ii) by way of compensation for a deferral of the interest payable on those securities.

(2) The person entitled to a capital sum in an interest period as mentioned in paragraph (1)(a) shall be regarded as entitled in that interest period to a sum on the securities, for the purposes of section 713(2)(a) or (3)(a), in an amount equal to the part of the sum referred to in paragraph (1)(b).

PART VIII

CHARGEABLE GAINS

Equation of holding of non-sterling currency with new euro holding on euroconversion

36. A euroconversion of currency ("the original currency") shall not be treated for the purposes of the 1992 Act as involving any disposal of the original currency or any acquisition of the new euro holding or any part of it, but the original currency (taken as a single asset) and the new euro holding (taken as a single asset) shall be treated for those purposes as the same asset acquired as the original currency was acquired.

Equation of debt (other than a debt on a security) on euroconversion

37. A euroconversion of a debt other than a debt on a security ("the original debt") shall not be treated for the purposes of the 1992 Act as involving any disposal of that debt by the creditor or any acquisition by him of a new debt or any part of it, but the original debt and the new debt shall be treated for those purposes (to the extent that they are not already so treated) as the same asset acquired as the original asset was acquired.

Derivatives over assets the subject of euroconversion

38.—(1) This regulation applies where—

(a) a derivative represents rights or obligations in respect of any asset or liability or other amount ("the underlying asset"),

(b) there is a euroconversion of the underlying asset,

(c) a transaction is entered into in relation to that derivative that would, but for this regulation, result in a disposal for the purposes of the 1992 Act of the derivative ("the original derivative") and the acquisition of a new derivative,

(d) the terms of the new derivative differ from the terms of the original derivative only to the extent necessary to reflect the euroconversion of the underlying asset, and

(e) no party to the transaction receives any consideration in respect of the original derivative other than the new derivative.

(2) The transaction described at paragraph (1)(c) shall not be treated for the purposes of the 1992 Act as involving any disposal of the original derivative or any acquisition of the new derivative, but the original derivative and the new derivative shall be treated for those purposes as the same asset acquired as the original derivative was acquired.

Cash payments received on euroconversion of securities

39. Chapter II of Part IV of the 1992 Act shall have effect as if after section 133 of that Act (premiums on conversion of securities) there were inserted the following section—

"**Cash payments received on euroconversion of securities**

133A.—(1) This section applies where, under a euroconversion of a security that does not involve a disposal of the security and accordingly is not a conversion of securities within section 132(3)(a)(**20**), a person receives, or becomes entitled to receive, any sum of money ("the cash payment").

(2) If the cash payment is small, as compared with the value of the security concerned—

(a) receipt of the cash payment shall not be treated for the purposes of this Act as a disposal of part of the security, and

(b) the cash payment shall be deducted from any expenditure allowable under this Act as a deduction in computing a gain or a loss on a disposal of the security by the person receiving or becoming entitled to receive the cash payment.

(3) Where the allowable expenditure is less than the cash payment (or is nil)—

(a) subsection (2) above shall not apply, and

(b) if the recipient so elects (and there is any allowable expenditure)—

(i) the amount of the cash payment shall be reduced by the amount of the allowable expenditure, and

(ii) none of that expenditure shall be allowable as a deduction in computing a gain accruing on the occasion of the euroconversion or on any subsequent occasion.

(4) In this section—

(a) "allowable expenditure" means expenditure which immediately before the euroconversion was attributable to the security under paragraphs (a) and (b) of section 38(1);

(b) "euroconversion" has the meaning given by regulation 3 of the European Single Currency (Taxes) Regulations 1998."

(**20**) Section 132(3)(a) was amended by section 88(2) of the Finance Act 1997.

PART IX

CONTROLLED FOREIGN COMPANIES

Replacement of currency used in accounts of controlled foreign company by euro

40.—(1) This regulation applies in a case where, as a result of the adoption of the euro by a participating member State, the currency used in the accounts of a controlled foreign company for the first relevant accounting period of the company is to be replaced by the euro.

(2) Section 747A(2)(**21**) of the Taxes Act shall have effect as if it provided that—

(a) where the currency used in the accounts of the controlled foreign company for the first relevant accounting period was the ecu, the chargeable profits for any subsequent accounting period ending on or after 1st January 1999 should be computed and expressed in the euro;

(b) where the currency used in the accounts of the controlled foreign company for the first relevant accounting period was a currency other than the ecu—

(i) the chargeable profits for any subsequent accounting period in which, or in any part of which, the currency continues to exist as a legal sub-unit of the euro should be computed and expressed in either the currency so used or the euro;

(ii) the chargeable profits for any accounting period beginning after the end of the latest accounting period referred to in paragraph (i) should be computed and expressed in the euro.

PART X

AMENDMENTS TO THE LOCAL CURRENCY ELECTIONS REGULATIONS

Introductory

41.—(1) The Local Currency Elections Regulations 1994(**22**) ("the 1994 Regulations") shall have effect in relation to the adoption of the euro by a member State with the modifications specified in regulations 42 to 47.

(2) Except where otherwise defined in these Regulations, expressions used in this Part of these Regulations have the meanings given by the 1994 Regulations, and references to a regulation in regulations 42 to 47 are references to a regulation of the 1994 Regulations.

Period for determining validity of elections

42.—(1) In regulation 5(2)—

(a) in sub-paragraph (a) after the words "trade is carried on" there shall be inserted

", determined—

(i) at the beginning of the first accounting period to which the election applies and at any time thereafter, or

(ii) where the election is for a part of a trade which the company begins to carry on at a time in the first accounting period to which the election applies which

(**21**) Section 747A was inserted by paragraph 2 of Schedule 25 to the Finance Act 1995 and amended by paragraph 1 of Schedule 36, and Part V(34) of Schedule 41, to the Finance Act 1996 and by paragraph 2 of Schedule 17 to the Finance Act 1998.
(**22**) S.I. 1994/3230.

is not the beginning of that accounting period, at the time the part of the trade commences and at any time thereafter";

(b) in sub-paragraph (b) there shall be added at the end "as regards the first accounting period to which the election applies and subsequent accounting periods".

(2) In regulation 6 after the words "In determining" there shall be inserted "for the purposes of regulation 5(2)(a)".

Existing election for ecu or participating currencies

43.—(1) An election made by a company under regulation 3 or 4 in relation to—

(a) the ecu, or

(b) a currency participating in the euro,

shall have effect for the purposes of the 1994 Regulations on and after 1st January 1999 or, if later, the date on which the euro is adopted by the participating member State concerned, as if the election—

(a) continued on or after that date, and

(b) was made in relation to the euro as well as in relation to the ecu or, as the case may be, the participating currency concerned.

(2) In paragraph (1) the reference to a currency participating in the euro (or the participating currency) is a reference to the currency of a participating member State which, as a result of the adoption of the euro by that member State, is replaced by the euro but continues to exist as a legal sub-unit of the euro.

Treatment of existing part trade elections in participating currencies

44.—(1) Where prior to 1st January 1999, or, if later, prior to the date on which the euro is adopted by the participating member State concerned—

(a) a company makes more than one election under regulation 4 for different parts of its trade,

(b) the currency specified in each election—

(i) as at 1st January 1999, is a participating currency, or

(ii) as at the later date on which the euro is adopted by the participating member State concerned, is either a participating currency or the euro, and

(c) the elections taken together cover the whole of the company's trade,

the elections shall be treated on and after 1st January 1999 or, as the case may be, the later date referred to above, for the purposes of the 1994 Regulations, as if they together constituted a single election for the euro as well as for the participating currency concerned under regulation 3 in respect of the whole of the company's trade.

(2) Where prior to 1st January 1999 or, if later, prior to the date on which the euro is adopted by the participating member State concerned—

(a) a company makes more than one election under regulation 4 for different parts of its trade,

(b) the currency specified in more than one of its elections—

(i) as at 1st January 1999, is a participating currency, or

(ii) as at the later date on which the euro is adopted by the participating member State concerned, is either a participating currency or the euro, and

(c) the elections taken together do not cover the whole of the company's trade,

all the elections referred to in sub-paragraph (b) shall be treated on and after 1st January 1999 or, as the case may be, the later date referred to above, for the purposes of the 1994 Regulations, as if they

together constituted a single election for the euro as well as for the participating currency concerned under regulation 4 in respect of part of the company's trade.

Election for whole trade where part trade election already exists

45. For regulation 3(2) there shall be substituted—

"(2) An election made by a company under this regulation for a trade for an accounting period shall be of no effect if—

(a) an election ("the previous election") has previously been made by the company under regulation 4 in a different currency for that accounting period and any part of that trade, and

(b) the previous election remains in force as respects that trade and that accounting period.

(3) Where—

(a) an election ("the new election") is made by a company under this regulation for a trade for an accounting period, and

(b) an election ("the previous election") has previously been made by the company under regulation 4 in the same currency for that accounting period and any part of that trade,

the new election shall be taken to replace the previous election with effect from the beginning of the first accounting period to which the new election applies."

Determination of rate of exchange where part trade election replaced by whole trade election or combined part trade election

46. In regulation 8—

(a) in paragraph (1) at the beginning there shall be inserted "Subject to paragraph (5) below,";

(b) after paragraph (4) there shall be added—

"(5) Where, as a result of the adoption of the euro by one or more participating member States—

(a) elections by a company for parts of its trade under regulation 4 are treated under regulation 44 of the European Single Currency (Taxes) Regulations 1998 as a single election by the company for the euro under regulation 3 in respect of the whole of its trade for an accounting period beginning on or after 1st January 1999 or, if later, on or after the date of adoption of the euro by the member State concerned,

(b) elections by a company for parts of its trade under regulation 4 are treated under regulation 44 of those Regulations as a single election by the company for the euro under regulation 4 in respect of part of its trade for an accounting period beginning on or after 1st January 1999 or, if later, on or after the date of adoption of the euro by the member State concerned,

the company shall, unless it makes a new statement under paragraph (1) above for that accounting period not later than the date specified in paragraph (6) below, be treated in relation to that accounting period and thereafter as using for the purposes of that paragraph the London closing exchange rate.

(6) The date specified is the date which is 92 days after the date of adoption of the euro by the member State concerned.

(7) In paragraphs (5) and (6) above references to the euro are references to the single currency adopted by a member State other than the United Kingdom in accordance with the Treaty establishing the European Community."

Part trade elections for new part trades

47. In regulation 9 after paragraph (3) there shall be added—

"(4) Subject to the following provisions of these Regulations, an election for a part of a trade which a company begins to carry on at a time ("the relevant time") in an accounting period that is not the beginning of that accounting period shall have effect as respects that part for all accounting periods beginning on or after the relevant time if the election is made before the relevant time."

Jane Kennedy
David Jamieson
Two of the Lords Commissioners of Her Majesty's Treasury

17th December 1998

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations modify the application of provisions of the Taxes Acts so as to cater for the proposed adoption of the single currency ("the euro") by member States other than the United Kingdom from 1st January 1999 in accordance with the Treaty establishing the European Community.

The Regulations are in a number of Parts of which Part I, comprising regulations 1 to 3, is introductory.

Part II (regulations 4 to 6) adapts provisions of the Income and Corporation Taxes Act 1988 ("the 1988 Act") so as to provide for the deduction by companies for tax purposes of the costs of redenominating shares and securities in euro.

Part III (regulations 7 to 12) adapts provisions in Finance Acts relating to exchange gains and losses, interest rate and currency contracts and debt contracts, and relevant discounted securities, so as to deal with the introduction of the euro.

Part IV (regulations 13 to 19) makes similar provision in relation to agreements for the sale and repurchase of securities and Part V (comprising regulations 20 to 23) makes similar provision in relation to stock lending.

Part VI (regulations 24 to 30) adapts provisions relating to stamp duty and stamp duty reserve tax in connection with the sale and repurchase of securities and stock lending.

Part VII (regulations 31 to 35) adapts provisions relating to the accrued income scheme.

Part VIII (regulations 36 to 39) adapts provisions of the Taxation of Chargeable Gains Act 1992.

Part IX (regulation 40) adapts a provision of the controlled foreign companies legislation (section 747A of the 1988 Act).

Part X (regulations 41 to 47) adapts the Local Currency Elections Regulations 1994.