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STATUTORY INSTRUMENTS

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**1992 No. 570**

**TAXES**

**The Stamp Duty and Stamp Duty Reserve Tax (Investment Exchanges and Clearing Houses) Regulations 1992**

<i>Made</i>	- - - -	<i>9th March 1992</i>
<i>Laid before the House of Commons</i>	- - - -	<i>9th March 1992</i>
<i>Coming into force</i>	- -	<i>22nd March 1992</i>

The Treasury, in exercise of the powers conferred on them by sections 116 and 117 of the Finance Act 1991(1), hereby make the following Regulations:

**Citation and commencement**

1. These Regulations may be cited as the Stamp Duty and Stamp Duty Reserve Tax (Investment Exchanges and Clearing Houses) Regulations 1992 and shall come into force on 22nd March 1992.

**Interpretation**

2. In these Regulations unless the context otherwise requires—

“the Board” means the Commissioners of Inland Revenue;

“the Board of directors” means the Board of directors of LIFFE (A&M);

“the Delta number” means the number which—

(a) is calculated and published from time to time under the authority of the Board of directors in relation to each type of option and the price at which the option may be exercised, and

(b) reflects the degree of probability of exercise of that option as determined by the Board of directors in the light of the current market price of the shares or stock to which the option relates;

“the Deltapluslong limit” and “the Deltaplusshort limit” have the meanings given by regulation 9(1) and 9(2) respectively;

“designated account” means an account designated for a member by the Board of directors in connection with options to buy or sell securities;

“equity securities” means stocks and shares which are issued or raised by a company but does not include stocks and shares issued or raised by a company not incorporated in the United Kingdom unless—

- (a) they are registered in a register kept in the United Kingdom by or on behalf of the company, or
- (b) in the case of shares, they are paired, within the meaning of section 99(6A) of the Finance Act 1986(2), with shares issued by a company incorporated in the United Kingdom;

“LIFFE” means The London International Financial Futures and Options Exchange;

“LIFFE (A&M)” means The London International Financial Futures Exchange (Administration and Management);

“the Maxlong limit” and “the Maxshort limit” have the meanings given by regulation 8(1) and 8(2) respectively;

“member” means a member of LIFFE (A&M) who is recognised as such by the Board of directors;

“option” means an option to buy or sell securities which is listed by and traded on LIFFE;

“options market maker” means a member who buys and sells, on his own account, options to buy or sell equity securities and who, at the times specified in regulations 5(2)(b)(i) and 7(3)(c)(i), (e) and (f), and at the time of the agreement referred to in regulations 5(2)(c)(iii) and 7(3)(d)(iii), was recognised by the Board of directors as a market maker in relation to options in respect of equity securities of a particular kind and was acting in the capacity of a market maker in relation to those options;

“options principal trader” means a member who buys and sells, on his own account, options to buy or sell equity securities but who, at the times specified in regulations 5(2)(b)(ii) and 7(3)(c)(ii), (e) and (f), and at the time of the agreement referred to in regulations 5(2)(c)(iii) and 7(3)(d)(iii), was not recognised by the Board of directors as a market maker in relation to options in respect of equity securities of a particular kind or, if so recognised, was not acting in the capacity of a market maker in relation to those options;

“the principal sections” means sections 116 and 117 of the Finance Act 1991;

“relevant expiry month” means a calendar month during which an option to buy or sell equity securities of a particular kind will expire, unless previously exercised;

“section 82” and “section 87” mean sections 82 and 87 respectively of the Finance Act 1986(3).

### **Prescriptions of recognised investment exchange, recognised clearing house and member**

- 3. For the purposes of the principal sections this regulation prescribes—
  - (a) LIFFE (A&M) as a recognised investment exchange;
  - (b) The London Clearing House Limited as a recognised clearing house; and
  - (c) a member who buys and sells options to buy or sell equity securities as a description of member.

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(2) Subsections (3) to (6A) of section 99 were substituted for subsections (3) to (6) of that section by section 144(2) and (6) of the Finance Act 1988 (c. 39).

(3) 1986 c. 41. Subsection (6) of section 82 was amended by section 53 of the Finance Act 1987 (c. 16). Section 82 was prospectively repealed by sections 108 and 111 of, and by Part VI of Schedule 19 to, the Finance Act 1990 (c. 29) with effect from an appointed day. Part IV of the Finance Act 1986 (comprising sections 86 to 99 inclusive) was prospectively repealed by sections 110 and 111 of, and by Part VII of Schedule 19 to, the Finance Act 1990 with effect from an appointed day.

#### **Transfers of securities to The London Clearing House Limited—prescribed circumstances**

4.—(1) In the circumstances prescribed by paragraph (2), a charge to stamp duty or to stamp duty reserve tax shall be treated as not arising.

(2) The circumstances prescribed by this paragraph are where equity securities of a particular kind are transferred or issued or agreed to be transferred or issued—

- (a) to The London Clearing House Limited acting in its capacity as a person providing clearing services, within the meaning of section 38(1) of the Financial Services Act 1986<sup>(4)</sup>, for members of LIFFE as the result of the exercise of options, or
- (b) to a person whose business is or includes holding such securities as a nominee for The London Clearing House Limited acting in the capacity specified in sub-paragraph (a) of this paragraph.

#### **Transfers of securities to members of LIFFE—prescribed circumstances**

5.—(1) In the circumstances prescribed by paragraph (2), a charge to stamp duty shall be treated as not arising.

(2) The circumstances prescribed by this paragraph are where—

- (a) in relation to an instrument transferring equity securities of a particular kind on sale to a member of the description prescribed by regulation 3(c) or the nominee of such a member, it is shown to the satisfaction of the Board that the transaction to which the instrument gives effect was carried out by the member in the circumstances prescribed by sub-paragraphs (b) and (c);
- (b) those securities were received by the member pursuant to the transfer—
  - (i) as an options market maker at the date of the transfer by way of a hedge against the likelihood of his having to deliver such securities on a future exercise of options which he had bought or sold, or
  - (ii) as an options principal trader at the date of the transfer by way of a hedge against the likelihood of his having to deliver such securities on a future exercise of options which he had bought or sold, or
  - (iii) in order to meet his obligation to deliver or receive securities resulting from the earlier exercise of options by or against him, or
  - (iv) in order to meet his obligation to deliver securities as the result of an earlier agreement to sell securities which at the time of the agreement he did not own and had not agreed to purchase and which he had agreed to sell in order to hedge the likelihood of his having to receive such securities on a future exercise of options which he had bought or sold;
- (c) the number of securities so received by the member—
  - (i) where paragraph (i) of sub-paragraph (b) applies, does not result in the total number of securities of that kind held by, or agreed to be transferred to, the member at the date of the transfer for the purpose specified in that paragraph exceeding the Maxlong limit applicable on that date in respect of securities of that kind, or
  - (ii) where paragraph (ii) of sub-paragraph (b) applies, does not result in the total number of securities of that kind held by, or agreed to be transferred to, the member at the date of the transfer for the purpose specified in that paragraph exceeding the Deltapluslong limit applicable on that date in respect of securities of that kind, or the

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(4) 1986 c. 60.

Maxlong limit applicable on that date in respect of securities of that kind to which he would be subject if he were a market maker, whichever is the less, or

- (iii) where paragraph (iii) of sub-paragraph (b) applies, does not exceed the amount, if any, by which the number of securities which he is so obliged to deliver exceeds the number of securities of that kind calculated by reference to the formula—

$$A + B - C$$

where—

A is the number of securities of that kind which he held at the time of exercise of those options, or had previously agreed to receive as a hedge against the likelihood of his having to deliver such securities on a future exercise of those options, other than securities which he was obliged to deliver at that time as the result of an earlier agreement to sell securities which at the time of the agreement he did not own and had not agreed to purchase, which he had agreed to sell in order to hedge the likelihood of his having to receive such securities on a future exercise of options which he had bought or sold, and which did not exceed the appropriate limit at the time of the agreement.

B is the number of such securities which he was obliged to receive at that time as a result of the exercise of other options by or against him, and

C is the number of such securities which he held or had agreed to receive at that time as a hedge against the likelihood of his having to deliver such securities on a future exercise of other options which he had bought or sold, or

- (i) where paragraph (iv) of sub-paragraph (b) applies, does not exceed the appropriate limit at the time of the agreement.

(3) An instrument on which a charge to stamp duty is treated as not arising by virtue of paragraphs (1) and (2) shall not be deemed to be duly stamped unless it has been stamped with a stamp denoting that it is not chargeable with any duty.

(4) For the purpose of the definition of A in paragraph (2)(c)(iii), “the appropriate limit” means—

- (a) where the member was an options market maker at the time of the agreement in relation to the securities which were the subject of the agreement, the Maxlong limit, and
- (b) where the member was an options principal trader at the time of the agreement in relation to the securities which were the subject of the agreement, the Deltapluslong limit or the Maxlong limit, whichever is the less.

(5) For the purpose of paragraph (2)(c)(iv), “the appropriate limit” means—

- (a) where the member was an options market maker at the time of the agreement in relation to the securities which were the subject of the agreement, the Maxshort limit, and
- (b) where the member was an options principal trader at the time of the agreement in relation to the securities which were the subject of the agreement, the Deltaplusshort limit or the Maxshort limit, whichever is the less.

### **Borrowing of securities by members of LIFFE—prescribed circumstances**

6.—(1) In the circumstances prescribed by paragraph (2), a charge to stamp duty shall be treated as reduced in accordance with section 82(3) of the Finance Act 1986.

(2) The circumstances prescribed by this paragraph are where—

- (a) subject to sub-paragraphs (b) to (d), the provisions of subsections (1) and (2) of section 82 apply;
- (b) the stock referred to in that section consists of equity securities of a particular kind;

- (c) the person referred to as “A” in that section is a member of the description prescribed by regulation 3(c);
- (d) the transfer of securities to A is a transfer to which section 129(3) of the Income and Corporation Taxes Act 1988 applies<sup>(5)</sup>.

**Agreements to transfer securities—prescribed circumstances**

7.—(1) In the circumstances prescribed by paragraphs (2) and (3), a charge to stamp duty reserve tax shall be treated as not arising.

- (2) The circumstances prescribed by this paragraph are where—
  - (a) the chargeable securities referred to in section 87 as agreed to be transferred are equity securities of a particular kind;
  - (b) one of the parties to the agreement is a member; and
  - (c) due to a failure on the part of the member to fulfil his obligation to deliver or receive securities under the agreement, no subsequent transfer of the securities which are the subject of the agreement takes place.
- (3) The circumstances prescribed by this paragraph are where—
  - (a) the chargeable securities referred to in section 87 as agreed to be transferred are equity securities of a particular kind;
  - (b) the person referred to as “B” in that section is a member of the description prescribed by regulation 3(c);
  - (c) those securities were receivable by B or his nominee pursuant to the agreement—
    - (i) as an options market maker at the date of the agreement by way of a hedge against the likelihood of his having to deliver such securities on a future exercise of options which he had bought or sold, or
    - (ii) as an options principal trader at the date of the agreement by way of a hedge against the likelihood of his having to deliver such securities on a future exercise of options which he had bought or sold, or
    - (iii) in order to meet his obligation to deliver or receive securities resulting from the earlier exercise of options by or against him, or
    - (iv) in order to meet his obligations to deliver securities as the result of an earlier agreement to sell securities which at the time of the agreement he did not own and had not agreed to purchase and which he had agreed to sell in order to hedge the likelihood of his having to receive such securities on a future exercise of options which he had bought or sold;
  - (d) the number of securities so receivable by B or his nominee—
    - (i) where paragraph (i) of sub-paragraph (c) applies, does not result in the total number of securities of that kind held by, or agreed to be transferred to, B or his nominee at the date of the agreement for the purpose specified in that paragraph exceeding the Maxlong limit applicable on that date in respect of securities of that kind, or
    - (ii) where paragraph (ii) of sub-paragraph (c) applies, does not result in the total number of securities of that kind held by, or agreed to be transferred to, B or his nominee at the date of the agreement for the purpose specified in that paragraph exceeding the Deltapluslong limit applicable on that date in respect of securities of that kind, or the Maxlong limit applicable on that date in respect of securities of that kind to which he would be subject if he were a market maker, whichever is the less, or

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(5) 1988 c. 1; section 129(3) was amended by section 57(1) and (3) of the Finance Act 1991.

- (iii) where paragraph (iii) of sub-paragraph (c) applies, does not exceed the amount, if any, by which the number of securities which he is so obliged to deliver exceeds the number of securities of that kind calculated by reference to the formula—

$$D + E - F$$

where—

D is the number of securities of that kind which B held at the time of exercise of those options or had previously agreed to receive as a hedge against the likelihood of his having to deliver such securities on a future exercise of those options, other than securities which he was obliged to deliver at that time as the result of an earlier agreement to sell securities which at the time of the agreement he did not own and had not agreed to purchase, which he had agreed to sell in order to hedge the likelihood of his having to receive such securities on a future exercise of options which he had bought or sold, and which did not exceed the appropriate limit at the time of the agreement,

E is the number of such securities which he was obliged to receive at that time as a result of the exercise of other options by or against him, and

F is the number of such securities which he held or had agreed to receive at that time as a hedge against the likelihood of his having to deliver such securities on a future exercise of other options which he had bought or sold, or

- (i) where paragraph (iv) of sub-paragraph (c) applies, does not exceed the appropriate limit at the time of the agreement;
- (e) if, following the agreement to transfer equity securities of a particular kind to B in the circumstances referred to in paragraph (i) or (ii) of sub-paragraph (c), the number of securities held by B or agreed to be transferred to him, other than securities held in order to meet his obligation to deliver securities as the result of the earlier exercise of options by or against him, exceeds, at any time subsequent to the date of the agreement and for a period of six consecutive days, the appropriate limit as calculated from day to day in respect of securities of that kind, the amount of the excess is unconditionally agreed to be transferred by him prior to the expiry of the day following the end of that period;
- (f) if, following the agreement to transfer equity securities of a particular kind to B on the exercise of options by or against him, the number of securities of that kind so agreed to be transferred exceeds, for a period of six consecutive days, the sum of—
- (i) the appropriate limit, as calculated from day to day, in respect of securities of that kind which are required to cover a potential future exercise of other options which he had bought or sold, and
- (ii) the number of securities of that kind which are required to meet his obligation to deliver securities resulting from the exercise of other options by or against him,

the amount of the excess is unconditionally agreed to be transferred by him prior to the expiry of the day following the end of that period.

(4) For the purposes of sub-paragraphs (d)(iii), (e) and (f) of paragraph (3), “the appropriate limit” means—

- (a) where B is an options market maker in relation to the securities referred to in those sub-paragraphs at the time of the agreement referred to in the definition of D in sub-paragraph (d)(iii) of paragraph (3) or, as the case may be, during the periods specified in sub-paragraphs (e) and (f) of that paragraph, the Maxlong limit, and
- (b) where B is an options principal trader in relation to the securities referred to in those sub-paragraphs at the time of the agreement referred to in the definition of D in sub-paragraph (d)(iii) of paragraph (3) or, as the case may be, during the periods specified in

sub-paragraphs (e) and (f) of that paragraph, the Deltapluslong limit or the Maxlong limit, whichever is the less.

- (5) For the purpose of sub-paragraph (d)(iv) of paragraph (3), “the appropriate limit” means—
- (a) where B was an options market maker at the time of the agreement in relation to the securities which were the subject of the agreement, the Maxshort limit, and
  - (b) where B was an options principal trader at the time of the agreement in relation to the securities which were the subject of the agreement, the Deltaplusshort limit or the Maxshort limit, whichever is the less.

### **Maxlong and Maxshort limits**

**8.—(1)** For the purposes of regulations 5 and 7, “the Maxlong limit” means, in relation to options entered into by a member who is an options market maker to buy or sell equity securities of a particular kind, the maximum number of such securities which is found by—

- (a) making the following calculation in respect of each relevant expiry month and each designated account—

$$G - H$$

where G is the number of securities which he is likely to deliver, and H is the number of securities which he is likely to receive, on the exercise of options expiring within that month, on the assumption that—

- (i) the market price of the securities is at a figure which having regard to paragraphs (ii) and (iii) would produce the maximum figure resulting from that calculation,
  - (ii) such options as give the holder the right to buy such securities at a price above that market price, or to sell such shares at a price below that market price, are not exercised, and
  - (iii) such options as give the holder the right to buy such securities at a price equal to or below that market price, or to sell such securities at a price equal to or above that market price, are exercised;
- (b) where the amount calculated by reference to sub-paragraph (a) is a negative amount, treating that amount as zero; and
- (c) aggregating the amounts so calculated in respect of all relevant expiry months and designated accounts.

**(2)** For the purposes of regulations 5 and 7, “the Maxshort limit” means, in relation to options entered into by a member who is an options market maker to buy or sell equity securities of a particular kind, the maximum number of such securities which is found by—

- (a) making the following calculation in respect of each relevant expiry month and each designated account—

$$J - K$$

where J is the number of securities which he is likely to receive, and K is the number of securities which he is likely to deliver, on the exercise of options expiring within that month, on the assumption that—

- (i) the market price of the securities is at a figure which having regard to paragraphs (ii) and (iii) would produce the maximum figure resulting from that calculation,
- (ii) such options as give the holder the right to buy such securities at a price above that market price, or to sell such shares at a price below that market price, are not exercised, and

- (iii) such options as give the holder the right to buy such securities at a price equal to or below that market price, or to sell such securities at a price equal to or above that market price, are exercised;
- (b) where the amount calculated by reference to sub-paragraph (a) is a negative amount, treating that amount as zero; and
- (c) aggregating the amounts so calculated in respect of all relevant expiry months and designated accounts.

### **Deltapluslong and Deltaplusshort limits**

9.—(1) For the purposes of regulations 5 and 7, “the Deltapluslong limit” means, in relation to options entered into by a member who is an options principal trader to buy or sell equity securities of a particular kind, the maximum number of such securities which is found by—

- (a) subject to sub-paragraph (c), making the following calculation in respect of each relevant expiry month and each designated account—

$$L - M$$

where—

L is the number of such securities which he is likely to deliver on the exercise of options expiring within that month, calculated by multiplying the most recently published Delta number by the number of securities in respect of each option which would be transferred if that option were exercised, and

M is the number of securities which, adopting the same period of calculation, he is likely to receive, on the exercise of such options;

- (b) increasing the amount calculated in sub-paragraph (a) by 20 per cent. of the sum of the number of such securities which he would be obliged to deliver and the number he would be obliged to receive, if those options were all exercised;
- (c) where at the time of calculation such options would expire, unless previously exercised, within a period of four weeks, making the calculation specified in regulation 8(1)(a) in respect of those options for the relevant expiry month instead of the calculations referred to in sub-paragraphs (a) and (b) of this paragraph;
- (d) where the amount calculated by reference to sub-paragraphs (a) and (b) or the amount calculated by reference to sub-paragraph (c) is a negative amount, treating that amount as zero;
- (e) aggregating the amounts so calculated in respect of all relevant expiry months and designated accounts.

(2) For the purposes of regulations 5 and 7, “the Deltaplusshort limit” means, in relation to options entered into by a member who is an options principal trader to buy or sell equity securities of a particular kind, the maximum number of such securities which is found by—

- (a) subject to sub-paragraph (c), making the following calculation in respect of each relevant expiry month and each designated account—

$$N - P$$

where—

N is the number of such securities which he is likely to receive on the exercise of options expiring within that month, calculated by multiplying the most recently published Delta number by the number of securities in respect of each option which would be transferred if that option were exercised, and



P is the number of securities which, adopting the same method of calculation, he is likely to deliver, on the exercise of such options;

- (b) increasing the amount calculated in sub-paragraph (a) by 20 per cent. of the sum of the number of such securities which he would be obliged to deliver and the number he would be obliged to receive, if those options were all exercised;
- (c) where at the time of calculation such options would expire, unless previously exercised, within a period of four weeks, making the calculation specified in regulation 8(2)(a) in respect of those options for the relevant expiry month instead of the calculations referred to in sub-paragraphs (a) and (b) of this paragraph;
- (d) where the amount calculated by reference to sub-paragraphs (a) and (b) or the amount calculated by reference to sub-paragraph (c) is a negative amount, treating that amount as zero;
- (e) aggregating the amounts so calculated in respect of all relevant expiry months and designated accounts.

9th March 1992

*Irvine Patnick*  
*Gregory Knight*  
Two of the Lords Commissioners of Her  
Majesty's Treasury

**Status:** This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations, which come into force on 22nd March 1992, are made under sections 116 and 117 of the Finance Act 1991 which were enacted in consequence of the proposal to merge the London International Financial Futures Exchange and the London Traded Options Market of the London Stock Exchange to form the London International Financial Futures and Options Exchange (“LIFFE”). Section 116 provides that the charge to stamp duty shall be treated as not arising or as reduced in prescribed circumstances, and section 117 makes similar provision with regard to stamp duty reserve tax.

Regulation 1 provides for citation and commencement and regulation 2 for interpretation.

Regulation 3 prescribes for the purposes of sections 116 and 117 the London International Financial Futures Exchange (Administration and Management) as a recognised investment exchange, The London Clearing House Limited as a recognised clearing house, and a description of a member of LIFFE.

Regulation 4 prescribes the circumstances in which transfers of securities to the London Clearing House Limited will be exempt from stamp duty and stamp duty reserve tax.

Regulation 5 prescribes the circumstances in which transfers of securities to members of LIFFE will be exempt from stamp duty.

Regulation 6 prescribes the circumstances in which a charge to stamp duty in connection with the borrowing of securities by members of LIFFE will be treated as reduced.

Regulation 7 prescribes the circumstances in which agreements to transfer securities to members of LIFEE will be exempt from stamp duty reserve tax.

Regulation 8 defines the terms “the Maxlong limit” and “the Maxshort limit” for the purposes of regulations 5 and 7.

Regulation 9 defines the terms “the Deltapluslong limit” and “the Deltaplusshort limit” for the purposes of Regulations 5 and 7.