
STATUTORY INSTRUMENTS

1998 No. 3177

The European Single Currency (Taxes) Regulations 1998

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⁽¹⁾ (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.

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

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

⁽¹⁾ S.I. 1994/3228, amended by S.I. 1996/1348.

- (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(2) (debt contracts and options) as if it were the same contract as the original debt contract, made when the original debt contract was made.

(2) In paragraph (1)—

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

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

“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 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 renominatisation 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).

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