

2006 Pre-Budget Report



**HM Revenue
& Customs**

PBRN 16

6 December 2006

STAMP DUTY RESERVE TAX: EXCHANGE TRADED FUNDS

Who is likely to be affected?

1. Providers of Exchange Traded Funds (ETFs) that are incorporated outside the UK and who wish to list on a UK exchange, and investors in those funds.

General description of the measure

2. The regulations that exempt from stamp duty reserve tax (SDRT) certain Depositary Interests relating to companies incorporated outside the UK will be amended so that ETFs may also qualify.

Operative date

3. Regulations to make the change will be published and laid before Parliament in order that the exemption can take effect from 1 February 2007.

Current law and proposed revisions

4. Transactions in the shares of companies that are incorporated outside the UK but traded in London are normally settled in the form of a Depositary Interest held in CREST (the central securities depository for UK equities).
5. The 1999 Stamp Duty Reserve Tax (UK Depositary Interests in Foreign Securities) Regulations exempt from SDRT Depositary Interests representing shares in overseas incorporated companies. This exemption does not apply if the overseas company is centrally managed or controlled from the UK, keeps a share register in the UK or is a collective investment scheme.
6. The change to the regulations will enable an overseas ETF to qualify for exemption provided that both its central management and control and the location of its share register are outside the UK. Transfers of shares in ETFs incorporated in the UK will continue to be subject to SDRT in the same way as shares in other UK companies. The change will bring into line the SDRT treatment of overseas incorporated ETFs, overseas funds whose shares are not traded on exchange and shares in overseas

companies that are traded in London.

Further advice

7. Draft regulations have been published today. If you have any questions about this change, please contact Ian Burton on 020 7147 2788. Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk