

MEMO# 1449

October 10, 1989

REGULATIONS ON NONFUNCTIONAL CURRENCY GAIN OR LOSS [A

- 1 - October 10, 1989 TO: TAX MEMBERS NO. 39-89 CLOSED-END FUND MEMBERS NO. 53-89 INTERNATIONAL FUNDS TASK FORCE NO. 17-89 ACCOUNTING/TREASURERS COMMITTEE NO. 45-89 RE: REGULATIONS ON NONFUNCTIONAL CURRENCY GAIN OR LOSS

The attached temporary and proposed regulations issued by the IRS provide guidance under Code section 988 on the taxation of gain or loss from certain foreign currency transactions in a nonfunctional currency. Other regulations regarding the foreign currency rules of sections 985 through 989 were also recently issued by the IRS. (See Institute Memorandum to Tax Members No. 37-89, Closed-End Fund Members No. 51-89, International Funds Task Force No. 15-89 and Accounting/Treasurers Committee No. 43- 89, dated October 9, 1989). These section 988 regulations define the so-called "section 988 transactions" for which exchange gain or loss is realized on a transaction-by-transaction basis when the transaction is denominated in or determined by reference to a nonfunctional currency. In addition, the regulations provide rules for the computation, timing, character and source of gain or loss that generally is due to fluctuations in exchange rates. Rules are also provided for certain integrated hedging transactions. These temporary regulations are effective generally for taxable years beginning after December 31, 1986. Many parts of these regulations, however, have other effective dates. Because these regulations are also issued in proposed form, written comments and requests for a public hearing may be submitted to IRS through November 20, 1989. Please contact the undersigned at (202) 955-3585 by November 3, 1989 if you would like the Institute to file comments on these regulations. We will keep you informed of developments. - 2 - Keith D. Lawson Assistant General Counsel Attachment