

MEMO# 9794

March 24, 1998

IRS REQUESTS COMMENTS ON TAX CONSEQUENCES OF EURO CONVERSION

1 See Institute Memorandum to Tax Committee No. 8-98, Accounting/Treasurers Committee No. 12-98, International Committee No. 11-98, Unit Investment Trust Committee No. 8-98 and Transfer Agent Advisory Committee No. 12-98, dated March 4, 1998. [9794] March 24, 1998 TO: INTERNATIONAL COMMITTEE No. 13-98 RE: IRS REQUESTS COMMENTS ON TAX CONSEQUENCES OF EURO CONVERSION

The IRS has issued the attached announcement (Announcement 98-18) asking for comments on the tax issues raised by the conversion of certain European countries' currencies ("legacy currencies") to a single currency, the euro. As you may know, the conversion is scheduled to begin on January 1, 1999. The announcement states that the conversion of a legacy currency to the euro raises a number of U.S. federal tax issues for U.S. taxpayers investing or otherwise conducting business in a legacy currency, including the following issues: (1) whether the conversion creates a realization event with respect to a financial instrument denominated in a legacy currency, and the appropriate time to recognize any resulting gain or loss; and (2) whether a "qualified business unit" with a legacy currency as its functional currency will have changed its functional currency, and the implications of any such change. As you may recall, issuing guidance on both of these issues is included in the 1998 Treasury/IRS "Priority Guidance Plan" that was recently released.¹ The request for comments is not limited to comments on these two issues. The announcement requests that written comments be submitted to the IRS by April 30, 1998. Please contact the undersigned by April 6 with any comments that you would like the Institute to submit. Anne M. Barr Associate Counsel Attachment