

Treasury Chambers,
Great George Street,
London, SW1.

Telephone: 01-930 1234 ext. 1255

10th January, 1969

Our ref: 2-FEC 123/76/01

Dear Redman,

I was grateful to you for confirming the position in respect of the broad terms under which a local authority may be able to pay interest gross on an issue of bearer bonds denominated in foreign currency. As I indicated, papers are now before Treasury Ministers with a recommendation that local authorities and other public bodies should be encouraged to undertake Euro-bond borrowing and that a specific incentive (effectively free insurance against the exchange risk) should be given by the Treasury. If this recommendation is accepted, it is likely that one local authority at least, the GLC, will begin negotiations in the fairly near future with a view to an early Euro-bond issue.

As you are aware, Euro-bond issues are not practicable unless the borrower undertakes to pay interest gross, and it is therefore important to be clear as to the terms on which London, other local authorities and the nationalised industries can arrange borrowing on gross terms. I therefore rehearse below the position as I understand it, and I would be grateful if you would confirm as soon as possible that I have got it right.

It will be possible for a local authority or nationalised industry to arrange to pay interest gross, without attracting any UK tax charge, provided that the interest has an

Treasury-IR_correspondence_-_soil

overseas source in the hands of the bond-holder. This interest will be given a foreign source if:

- (a) The loan contract is made abroad.
- (b) The loan contract is governed by foreign law.
- (c) The interest is payable abroad, and there is no UK paying agent.
- (d) The loan is not secured on any specific assets or revenue in the UK.

We have always understood that the conditions as stated above are couched in fairly broad terms, and that the Revenue would need to consider any specific arrangement before taking a final view that it took the relative interest outside the UK tax charge. Since the Government's object will, if present proposals are approved, be to encourage this type of borrowing, we would propose to invite your comments on at least the first few draft loan arrangements so that we can be sure that no difficulty arises on this front. But for immediate purposes, the essential thing is to know that I have stated the conditions correctly in broad terms: we can consider most of the detail later.

I mentioned that in their sterling borrowing hitherto, the local authorities have secured their loans on their revenue, largely from rate income. The fourth condition above would of course preclude this, and we are considering with the Bank the implications of unsecured Euro-bond issues by the local authorities. Perhaps I may emphasise that we are doing this on the basis that this fourth requirement is fairly inflexible, as I have stated it above, and that there is no means by which the local authorities could secure their loans (if for good reasons they wished to do so) on any assets or income in the UK. I am not suggesting that this fourth requirement imposes any special obstacle, but if it is not inflexible I would like to know so that in advising the local authorities in the courses which are available, we can do so in the knowledge of all the possibilities.

There is some urgency in this matter because, as I have said, there is the possibility that at least the GLC will wish to proceed under this new borrowing facility in the near future. I would therefore be grateful for an early reply.

In view of his interest in these matters generally, I am copying this letter to Green.

Yours sincerely,

(D.A. Walker)

J.E. Redman, Esq.,
Secretaries' Office,
Inland Revenue,
Somerset House,
London WC2