HMRC - STSM116040 - Secondary Trading Of A Covered Warrant

Stamp Duty

Where, before expiry of a covered warrant in respect of underlying securities, the rights under the warrant are transferred and purchased, no stamp duty charge will normally arise. This is because no instrument of transfer will be required to be completed and executed where the rights to a covered warrant (rather than a transfer of the underlying stocks and shares), are acquired by the purchaser.

Stamp Duty Reserve Tax (SDRT)

Whether or not a SDRT charge under FA86/S87 arises whenever rights to a covered warrant in respect of underlying securities are agreed to be transferred before expiry of the warrant, is dependent on the terms of the warrant outlining how any settlement will occur upon exercise of the warrant.

The terms of a covered warrant provide only for a cash settlement upon exercise of the warrant:

The transfer of rights to a covered warrant underlying securities (before warrant exercise) is not subject to a charge to SDRT as no ‘rights to acquire’ chargeable securities as defined in FA86/S99(3)(c) have been transferred.

Under the terms of the covered warrant, the issuer of the covered warrant has the discretion, upon exercise of the warrant, to deliver (or acquire) the underlying securities, or arrange for a cash settlement:

In this situation, the transfer of rights to a covered warrant underlying securities before warrant exercise is not subject to a charge to SDRT as no ‘chargeable security’ as defined in FA86/S99 has been transferred.

Under the terms of the covered warrant, the holder of the warrant has the discretion, upon warrant exercise, to acquire the underlying securities, or arrange for a cash settlement:

The transfer of rights to a covered warrant (which gives the holder the right, but not the obligation, to purchase the underlying securities) before warrant exercise, may be subject to a charge to SDRT. This is because the transfer of rights to acquire an underlying security is regarded as a ‘chargeable security’ within the meaning of FA86/S99 (3)(c).

Upon exercise of a covered warrant, the terms of the warrant allow only for a delivery of the underlying security on settlement:

An agreement to transfer the rights to a covered warrant (before expiry of the warrant) which gives the holder the right to purchase the underlying securities may be subject to a charge to SDRT as a ‘right to acquire’ securities is regarded as being a ‘chargeable security’ as defined in FA86/S99 (3).

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