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Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the Department.
Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle du ministère.

PRINCIPAL ISSUES: Whether foreign currency is considered a non-qualified investment and/or a foreign property

POSITION: Provided that the foreign currency or another qualified investment converted to an other Canadian Government Bond within a reasonable time (for example, one month), the Department would not consider the trust to have acquired a non-qualified investment.

REASONS: Wording of the Act and previous positions

XXXXXXXXXX

5-980423
Fouad Daaboul

May 13, 1998

Dear Sir:

Re: RSP accounts

We are writing in response to your letter of November 4, 1997, received by our Directorate on February 20, 1998, wherein you requested our views on the treatment of foreign currency held in a trust governed by a Registered Retirement Savings Plan ("RRSP").

Money is a qualified investment under paragraph (a) of the definition of "qualified investment" in section 204 of the Income Tax Act (the "Act") only if it is legal tender in Canada. As stated in paragraph 7 of Interpretation Bulletin IT-320R2, foreign currency is not a qualified investment for an RRSP trust.

The Department does have a position which evolved as a result of a submission received indicating that an RRSP trust trading in qualified investments denominated in a foreign currency would invariably hold foreign currency on a temporary basis. This could occur where interest or a dividend on a particular security held by the trust is received in foreign currency or where the trust receives foreign currency on the disposition of a security denominated in the foreign currency. It could also occur where the trust converts Canadian dollars into a particular foreign currency to allow it to acquire a qualified investment denominated in that currency. Technically, subsection 146(10) of the Act would apply each time the

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RRSP trust acquires the foreign currency and subsection 146(6) of the Act would apply each time it is disposed of. This was considered to be an unintentional result and the Department agreed not to apply those provisions where the foreign currency was converted to Canadian currency or used to acquire a qualified investment within a reasonable period of time (usually one month).

We trust our comments will be of assistance to you.

Yours truly,

Paul Lynch
for Director
Financial Industries Division
Income Tax Rulings and
Interpretations Directorate
Policy and Legislation Branch