
STATUTORY INSTRUMENTS

2004 No. 3256

INCOME TAX

**The Loan Relationships and Derivative
Contracts (Disregard and Bringing into Account
of Profits and Losses) Regulations 2004**

Made - - - - *9th December 2004*
Laid before the House of
Commons - - - - *10th December 2004*
Coming into force - - *1st January 2005*

The Treasury, in exercise of the powers conferred upon them by sections 84A(3A), 85B(3)(a) and 85B(5)(b) of the Finance Act 1996(1) and paragraphs 16(3A), 17C(1) and 17C(3)(b) of Schedule 26 to the Finance Act 2002(2) make the following Regulations:

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 and shall come into force on 1st January 2005.

(2) These Regulations have effect in relation to periods of account beginning on or after 1st January 2005.

Interpretation

2.—(1) In these Regulations—

“derivative contract” has the same meaning as in Schedule 26 to the Finance Act 2002;

“exchange gain or loss” includes, in the case of a derivative contract whose underlying subject matter is currency (and no other subject matter), all fair value profits or losses brought into account in relation to the contract;

“fair value accounting” has the meaning given in section 103 of the Finance Act 1996(3);

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- (1) 1996 c. 8. Section 84A was inserted by paragraph 3 of Part 1 of Schedule 23 to the Finance Act 2002 (c. 23) and sub-section (3A) was substituted by paragraph 2(2) of Schedule 10 to the Finance Act 2004 (c. 12) (“the 2004 Act”). Sections 85B was substituted and inserted by paragraph 3 of Schedule 10 to the 2004 Act.
- (2) 2002 c. 23. Paragraph 16(3A) was substituted by paragraph 48(2), and paragraphs 17C(1) and 17C(3)(b) were substituted by paragraph 50, of Part 2 of Schedule 10 to the 2004 Act.
- (3) Section 103 was inserted by paragraph 17(2)(b) of Part 1 of Schedule 10 to the 2004 Act.

“fair value profit or loss” means the profit or loss brought into account in relation to a derivative contract or an asset or liability representing a loan relationship where for the period in question fair value accounting is used, and where fair value accounting is used in relation to only part of a contract it means the profit or loss brought into account in relation to that part;

“underlying subject matter” has the same meaning as in Schedule 26 to the Finance Act 2002.

(2) In these Regulations—

“for accounting purposes” means for the purposes of accounts drawn up in accordance with generally accepted accounting practice;

“generally accepted accounting practice” has the meaning given in section 50 of the Finance Act 2004(4); and

“amortised cost”, “designated”, “effective hedge”, “effective interest method”, “firm commitment”, “forecast transaction”, “foreign operation” and “net investment in a foreign operation” have the same meaning as for accounting purposes.

(3) In these Regulations any reference to an asset which is a ship or aircraft includes a reference to a contract—

(a) to which section 67 of the Capital Allowances Act 2001(5) applies; and

(b) which relates to plant or machinery which is a ship or aircraft.

(4) In these Regulations—

(a) any reference to a hedging instrument includes a reference to part of an instrument; and

(b) any reference to a hedged item includes a reference to part of a hedged item.

(5) For the purposes of these Regulations, a company has a hedging relationship between a derivative contract or a liability representing a loan relationship on the one hand (“the hedging instrument”) and an asset, liability, receipt or expense on the other (“the hedged item”) if and to the extent that—

(a) the hedging instrument and the hedged item are designated by the company as a hedge; or

(b) in any other case the hedging instrument is intended to act as a hedge of—

(i) the exposure to changes in fair value of a hedged item which is a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset, liability or commitment that is attributable to a particular risk and could affect profit or loss of the company;

(ii) the exposure to variability in cash flows that is attributable to a particular risk associated with a hedged item that is a recognised asset or liability or a forecast transaction and could affect profit or loss of the company; or

(iii) a net investment in a foreign operation of the company.

Exchange gains or losses arising from liabilities or assets hedging shares etc.

3.—(1) For the purposes of section 84A(3A) of the Finance Act 1996 there is prescribed an exchange gain or loss arising to a company in an accounting period in relation to a liability representing a loan relationship of the company which is matched with the whole or part of any shares, ships or aircraft.

(2) This regulation does not apply if movements in the fair value of any shares, ships or aircraft which are an asset falling within regulation 3(1) are brought into account by the company in

(4) 2004 c. 12.

(5) 2001 c. 2.

computing, for the purposes of corporation tax, the profits of a trade carried on by it which consists of or includes dealing in shares, ships or aircraft.

(3) Shares, ships or aircraft are matched with a liability if any of the following conditions are satisfied.

Condition 1

The condition is that for the accounting period of the company immediately preceding the first accounting period to which these Regulations apply—

- (a) exchange gains and losses on the shares, ships or aircraft were taken to a reserve; and
- (b) set off there against exchange gains and losses on the liability.

Condition 2

The condition is that for the accounting period, the shares, ships or aircraft are a hedged item under a designated hedge of exchange rate risk in which the liability is the hedging instrument.

Condition 3

The condition is that the currency in which the liability is expressed is such that the company could, by entering into that liability, reasonably expect to eliminate or substantially reduce the economic risk of holding the asset, or part of the asset, which is attributable to fluctuations in exchange rates.

(4) If condition 3 applies, a liability is matched with an asset only to the extent that the carrying value of the liability at the time when the liability is entered into does not exceed the unmatched carrying value of the asset at that time.

(5) For the purposes of section 84A(3A) of the Finance Act 1996 there is prescribed an exchange gain or loss arising to a company in an accounting period in relation to an asset representing a loan relationship of the company which is matched with the whole or part of any share capital of the company.

(6) An asset is matched with share capital if for the accounting period of the company immediately preceding the first accounting period to which these Regulations apply—

- (a) exchange gains and losses on the asset were taken to a reserve; and
- (b) set off there against exchange gains and losses on the share capital.

(7) In this regulation—

“carrying value” means, in relation to a liability, the value as shown in the company’s accounts of that liability; and

“unmatched carrying value” means, in relation to an asset, an amount equal to the value as shown in the company’s accounts to the extent that that amount has not previously been matched in accordance with this regulation or regulation 4.

Exchange gains or losses arising from derivative contracts hedging shares etc.

4.—(1) For the purposes of paragraph 16(3A) and 17C(1)(a) of Schedule 26 to the Finance Act 2002 there is prescribed an exchange gain or loss arising to a company in an accounting period in relation to a derivative contract of the company which is matched with the whole or part of any shares, ships or aircraft.

(2) This regulation does not apply if movements in the fair value of any shares, ships or aircraft which are an asset falling within regulation 4(1) are brought into account by the company in

computing, for the purposes of corporation tax, the profits of a trade carried on by it which consists of or includes dealing in shares, ships or aircraft.

(3) Shares, ships or aircraft are matched with a derivative contract if any of the following conditions are satisfied.

Condition 1

The condition is that for the accounting period of the company immediately preceding the first accounting period to which these Regulations apply—

- (a) exchange gains and losses on the shares, ships or aircraft were taken to a reserve; and
- (b) set off there against exchange gains and losses on the derivative contract.

Condition 2

The condition is that for the accounting period, the shares, ships or aircraft are a hedged item under a designated hedge of exchange rate risk in which the derivative contract is the hedging instrument.

Condition 3

The condition is that the underlying subject matter of the derivative contract is such that the company could, by entering into that contract, reasonably expect to eliminate or substantially reduce the economic risk of holding the asset, or part of the asset, which is attributable to fluctuations in exchange rates.

(4) If condition 3 applies, a derivative contract is matched with an asset only to the extent that the carrying value of the derivative contract at the time when the contract is entered into does not exceed the unmatched carrying value of the asset at that time.

(5) In this regulation—

“carrying value” means, in relation to a derivative contract, the value as shown in the company’s accounts of that contract; and

“unmatched carrying value” means, in relation to an asset, an amount equal to the value as shown in the company’s accounts to the extent that that amount has not previously been matched in accordance with this regulation or regulation 3.

Regulations 3 and 4: supplementary

5.—(1) Where in any accounting period—

(a) a company holds more than one asset in relation to which there are amounts of exchange gains and losses falling within regulations 3 or 4; and

(b) the currency—

(i) in which the assets are denominated and the liability expressed; or

(ii) which is the underlying subject matter of the derivative contract,

is the same currency, the extent to which an asset is matched is determined in accordance with the following rules.

Rule 1

Liabilities and contracts are regarded as matched to the greatest possible extent with assets which—

(a) represent loan relationships of the company;

(b) represent derivative contracts of the company; or

- (c) are ships or aircraft.

Rule 2

Subject to Rule 1, liabilities and contracts are regarded as matched to the greatest possible extent with assets on the disposal of which a chargeable gain would accrue.

Rule 3

Subject to Rules 1 and 2, liabilities are regarded as matched with assets on a disposal of which no chargeable gain would be treated as accruing by virtue of Part 1 of Schedule 7AC to the Taxation of Chargeable Gains Act 1992⁽⁶⁾ if the disposal were made on a date falling more than twelve months after the date of the acquisition of the asset.

- (2) If—

- (a) part only of a liability falling within the third condition in regulation 3, or
- (b) part only of a contract falling within the third condition in regulation 4,

could reasonably be expected to eliminate or substantially reduce the economic risk of holding the asset which is attributable to fluctuations in exchange rates, the liability or contract is to be treated as being matched with a corresponding amount of value of an asset.

(3) For the purposes of paragraph (1), a currency in which a liability is expressed or which is the underlying subject matter of a derivative contract, is to be treated, if it is not the case, as the same currency in which an asset is denominated if—

- (a) borrowing in that currency, or
- (b) the obligation to deliver that currency,

could reasonably be expected to eliminate or substantially reduce the economic risk of holding the asset, or part of the asset, which is attributable to fluctuations in exchange rates.

(4) Where regulation 3 or section 84A(3) of the Finance Act 1996 applies to a company in an accounting period in relation to a liability representing a loan relationship there is prescribed, for the purposes of regulation 3 or section 84A(3A) of that Act, an exchange gain or loss treated by virtue of paragraph 6D(2) of Schedule 28AA to the Taxes Act 1988⁽⁷⁾ as arising in that accounting period to another company in relation to the same loan relationship.

Rules about fair value profits and losses

6.—(1) Regulations 7, 8 and 9 contain specific rules about excluding fair value profits and losses for the purposes of Schedule 26 to the Finance Act 2002.

(2) For the purposes of regulations 7, 8 and 9 it is immaterial that the hedging relationship is not an effective hedge for accounting purposes.

- (3) A company may elect that—

- (a) regulation 7 shall not apply to its currency contracts which satisfy the conditions contained in regulation 7(2); and
- (b) regulation 8 shall not apply to its commodity contracts or debt contracts which satisfy the conditions contained in that regulation.

- (4) Any election made under paragraph (3) shall apply to—

(6) 1992 c. 12. Part 1 was inserted by paragraph 1 of Part 1 of Schedule 8 to the Finance Act 2002.

(7) 1988 c. 1. Schedule 28AA was inserted by Schedule 16 to the Finance Act 1998 (c. 36). Paragraph 6D was inserted by section 35(2) of the 2004 Act.

- (a) all of the currency contracts entered into by the company which satisfy the conditions contained in regulation 7(2); and
- (b) all of the commodity contracts or debt contracts entered into by the company which satisfy the conditions contained in regulation 8(1).

(5) A company may elect that regulation 9 shall not apply to its interest rate contracts which satisfy the conditions contained in that regulation and any election under this regulation shall apply to all of the interest rate contracts entered into by the company which satisfy the conditions contained in regulation 9(1).

(6) Subject to paragraph (7), an election under paragraph (3) or (5) shall be made before the start of a company's first accounting period to which these Regulations apply or, if later, before 31st March 2005 and has effect for that accounting period and all subsequent accounting periods unless revoked.

(7) In any case where a company is not a party to any contracts to which regulations 7 or 8, or regulation 9 apply immediately before the start of the company's first accounting period to which the Regulations apply, an election within paragraph (3) or (5) shall be made within 90 days of the company entering into its first contract to which regulation 7 or 8, or regulation 9 applies, as the case may be.

(8) A company may revoke an election under paragraph (3) or (5) with effect from the date on which notice is given of it, but contracts entered into before that date shall not be affected.

(9) An election under paragraph (3) or (5) shall be made, and may be revoked by the company which made it, by notice in writing to the Inland Revenue.

(10) If—

- (a) a company ("the electing company") makes an election under paragraph (3) or (5) in relation to its contracts;
- (b) any other company which is a party to a derivative contract to which the election applies is a member of the same group of companies as the electing company; and
- (c) that other company has not made an election under paragraph (3) or (5) in relation to the contract, as the case may be,

then the other company is to be treated as if it had made the election but only in relation to that contract.

(11) Paragraph (10) does not apply if the electing company, or the other company, entered into the contract in the ordinary course of a banking business or a business as a securities house.

(12) If a contract to which regulation 7, 8 or 9 applies is transferred by a company in circumstances to which paragraph 28 of Schedule 26 to the Finance Act 2002⁽⁸⁾ would apply but for paragraph 30⁽⁹⁾ of that Schedule—

- (a) paragraph 30 shall not apply (and accordingly paragraph 28 shall apply); and
- (b) the transferee company is to be treated as not having made the election under paragraph (3) or (5) as the case may be ("the relevant election") in relation to that contract, if it has made a relevant election in relation to all of its contracts.

(13) If a company ("the electing company") makes an election under paragraph (3) or (5) in relation to its contracts—

- (a) a contract to which the election applies is transferred to another company ("the transferee company") in circumstances to which paragraph 28 of Schedule 26 to the Finance Act 2002 applies, or

⁽⁸⁾ Paragraph 28 was amended by section 179(1), (2), (3) and (5) of the Finance Act 2003 (c. 14) and section 30 of and paragraph 15(2) of Schedule 5 to the 2004 Act.

⁽⁹⁾ Paragraph 30 was amended by section 179(4) and (5) of the Finance Act 2003 and section 52 of and paragraph 57 of Schedule 10 to the 2004 Act.

(b) would apply but for paragraph 30 of that Schedule, and the transferee company has not made an election under paragraph (3) or (5) in relation to the contract as the case may be, then the transferee company is to be treated as if it had made the election but only in relation to that contract.

(14) In this Regulation—

“group of companies” shall be construed in accordance with section 170 of the Taxation of Chargeable Gains Act 1992⁽¹⁰⁾; and

“securities house” means a person—

- (a) who is authorised for the purposes of the Financial Services and Markets Act 2000⁽¹¹⁾; and
- (b) whose business consists wholly or mainly of dealing as a principal in financial instruments within the meaning of section 349(5) and (6) of the Taxes Act 1988⁽¹²⁾.

Fair value profits or losses arising from derivative contracts which are currency contracts

7.—(1) For the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002 there is prescribed in relation to a derivative contract whose underlying subject matter consists wholly of currency, all credits and debits representing the whole or part of the fair value profit or loss arising to a company in an accounting period; if the contract satisfies the conditions in paragraph (2).

(2) The conditions referred to in paragraph (1) are—

- (a) there is a hedging relationship between the contract or part of the contract and a forecast transaction or a firm commitment (“the hedged item”) of the company;
- (b) exchange gains and losses on the hedged item are not recognised in determining the company’s profit and loss; and
- (c) fair value profit or loss arising to the company in relation to the contract is recognised in the company’s profit and loss account or income statement.

(3) Where there is a hedging relationship between part of a currency contract and a hedged item, the part of the fair value profit or loss that is prescribed is the part which bears to the whole the proportion which the value of that part of the contract which is in the hedging relationship bears to the value of the whole of the contract.

Profits or losses arising from derivative contracts which are commodity contracts or debt contracts

8.—(1) For the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002 there is prescribed in relation to a commodity contract or a debt contract all credits and debits representing the whole or part of the fair value profit or loss arising to a company in an accounting period if—

- (a) there is a hedging relationship between the contract or part of the contract and a forecast transaction or a firm commitment (“the hedged item”) of the company; and
- (b) the hedged item is not one to which fair value accounting applies for that accounting period.

(2) In this regulation—

“a commodity contract” means a derivative contract whose underlying subject matter is commodities unless the contract is an interest rate contract within the meaning of regulation 9(4); and

⁽¹⁰⁾ 1992 c. 12.

⁽¹¹⁾ 2000 c. 8.

⁽¹²⁾ Section 349(5) and (6) were added by section 95 of the Finance Act 2002.

“a debt contract” means a derivative contract whose underlying subject matter is an asset or liability representing a loan relationship unless the contract is an interest rate contract within the meaning of regulation 9(4).

(3) Where there is a hedging relationship between part of a commodity contract or part of a debt contract as the case may be and a hedged item, the part of the fair value profit or loss that is prescribed is the part which bears to the whole the proportion which the value of that part of the contract which is in the hedging relationship bears to the value of the whole of the contract.

Profits or losses arising from derivative contracts which are interest rate contracts

9.—(1) For the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002 there is prescribed all credits and debits representing the whole or part of the fair value profit or loss arising to a company in relation to its interest rate contracts in an accounting period if—

- (a) there is a hedging relationship between the contract or a portion of the contract and any of the risks arising in respect of an asset, liability, receipt or expense (“the hedged item”); and
- (b) fair value profits or losses arising on the hedged item or in relation to any of the risks arising in respect of the hedged item, or any portion of the hedged item, are not brought into account for the purposes of corporation tax for that period.

(2) Where paragraph (1) applies, credits and debits shall be brought into account for the purposes of paragraph 17C(1)(b) of Schedule 26 to the Finance Act 2002 on the assumption that an appropriate accruals basis had been used in relation to the contract for that accounting period.

(3) Where paragraph 16(3) of Schedule 26 to the Finance Act 2002(13) or regulation 4 apply to a contract to which this regulation applies nothing in this regulation is to require any exchange gains or losses in relation to that contract to be brought into account.

(4) In this regulation—

“an appropriate accruals basis” in relation to a derivative contract is one where—

- (a) the contract is shown in the company’s accounts at cost (which may be nil), and the cost is adjusted for any cumulative amortisation of any premium or other amount falling to be recognised in arriving at the cost of the contract;
- (b) the aggregate of—
 - (i) the amount of periodical payments under the contract, or in the case of a swap contract under which only a single payment is to be made, the value of the payment and
 - (ii) the credits or debits representing interest arising, on the assumption that an effective interest method is used, in respect of the asset or liability representing a loan relationship which is the hedged item,

represent the credits or debits that would be given by generally accepted accounting practice in relation to an asset or liability representing a loan relationship whose terms include those of both the hedged item and the interest rate contract;

- (c) exchange gains and losses are recognised as a result of the translation of the contract at the balance-sheet date; and
- (d) profits and losses which arise as a result of the contract coming to an end before its stated date of maturity are amortised and brought into account over the unexpired term of the hedged item.

“an interest rate contract” means—

(13) 2002 c. 23. Sub-paragraph (3) was substituted by subsequent sub-paragraphs (3) and (3A) by paragraph 48(2) of Part 2 of Schedule 10 to the 2004 Act.

- (i) a derivative contract whose underlying subject matter is, or includes, interest rates, or
- (ii) if not falling within paragraph (i), a swap contract in which payments fall to be made by reference to a rate of interest or to an index determined by reference to income or retail prices.

(5) For the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002, there is also prescribed for any period any credits and debits which—

- (a) have for that or any previous period been brought into account in the statement of recognised gains and losses or statement of changes in equity (“equity statements”); and
- (b) represent fair value profits or losses which are transferred in that period from an equity statement—
 - (i) to the profit and loss account or income statement, or
 - (ii) directly to the carrying value of an asset or liability.

(6) Where credits and debits are prescribed by sub-paragraph (5) there is also prescribed, for the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002, any debits and credits corresponding to the sub-paragraph (5) credits and debits which are brought into account in the profit and loss account or income statement when—

- (a) the hedged item is recognised; or
- (b) a forecast transaction is no longer expected to occur.

(7) This regulation does not apply to any contract to which paragraphs 6,7 or 8 of Schedule 26 to the Finance Act 2002(14) applies.

Bringing fair value profits or losses into account on currency and commodity contracts

10.—(1) For the purposes of paragraph 17C(1)(c) of Schedule 26 to the Finance Act 2002—

- (a) there is prescribed the aggregate of the credits and debits representing any fair value profits or losses excluded in relation to a derivative contract of a company by virtue of regulation 7(1) or regulation 8(1); and
- (b) the amount of that aggregate is brought into account for the period in which a termination event occurs.

This is subject to paragraphs (3), (5), (7) and (8).

(2) In paragraph (1) a “termination event” occurs—

- (a) on the company ceasing to be a party to the contract; or
- (b) if earlier, when the hedged item begins to affect the company’s profit or loss.

(3) If the forecast transaction or firm commitment which is the hedged item mentioned in regulation 7 or regulation 8 is a forecast transaction of, or a firm commitment to a purchase of, anything the expenditure in relation to which—

- (a) falls to be taken into account in computing the profits of a trade or property business carried on by the company, or
- (b) would fall to be deducted but for any provision of the Corporation Tax Acts prohibiting the deduction of capital expenditure in respect of depreciation of an asset,

then the aggregate mentioned in paragraph (1)(a) in relation to the contract is to be brought into account in the accounting period in which the expenditure falls or would fall to be deducted.

(14) Paragraphs 6, 7 and 8 of Schedule 26 were amended by articles 1 and, respectively, 8, 9 and 10 of [S.I. 2004/2201](#).

(4) In paragraph (3) “property business” has the meaning given in paragraph 32(2) of Schedule 29 to the Finance Act 2002(15) (gains and losses of a company from intangible fixed assets).

(5) Where—

- (a) part of a contract to which this regulation applies terminates without the company ceasing to be a party to the contract, or
- (b) part only of the hedged item begins to be recognised in determining the company’s profit and loss,

paragraph (1)(b) is to apply to a proportionate amount of the aggregate.

(6) In paragraph (5) “proportionate amount” means that proportion of the relevant aggregate amount which is—

- (a) in a case where it is part of the contract which matures, the amount to which the fair value of the part of the contract maturing bears to the fair value of the whole of the contract at that time, and
- (b) in any other case the proportion which the fair value of the hedged item on which exchange gains and losses begin to be recognised bears to the fair value of the whole of the hedged item at that time.

(7) Where immediately on ceasing to be a party to the contract (“the old contract”), the company enters into another contract (“the new contract”) which meets the conditions in regulation 7 or regulation 8 in relation to the same hedged item as was the hedged item in relation to the old contract—

- (a) paragraph (1)(b) shall not apply in relation to the old contract, and
- (b) the aggregate prescribed in paragraph (1)(a) in relation to the old contract shall be treated for the purposes of the application of this regulation to the new contract as included in the aggregate prescribed in relation to the new contract.

(8) Where as a result of the company (“the transferor company”) ceasing to be a party to the contract (“the old contract”)—

- (a) paragraph 28 of Schedule 26 to the Finance Act 2002 applies, and
- (b) the transferee company (within the meaning of paragraph 28 of that Schedule) meets the conditions in regulation 7 or regulation 8 in relation to the contract (“the new contract”) and the same hedged item as was the hedged item in relation to the old contract,

paragraph (9) applies.

(9) Where this paragraph applies—

- (a) paragraph (1)(b) shall not apply in relation to the old contract; and
- (b) the aggregate prescribed in paragraph (1)(a) in relation to the old contract shall be treated for the purposes of the application of this regulation to the new contract as included in the aggregate prescribed in relation to the new contract.

(10) For the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002, there is also prescribed for any period any credits and debits which—

- (a) have for that or any previous period been brought into account in the statement of recognised gains and losses or statement of changes in equity (“equity statements”); or
- (b) represent fair value profits or losses which are transferred in that period from an equity statement—
 - (i) to the profit and loss account or income statement, or
 - (ii) directly to the carrying value of an asset or liability.

(11) Where credits and debits are prescribed by sub-paragraph (10) there is also prescribed, for the purposes of paragraph 17C(1)(a) of Schedule 26 to the Finance Act 2002, any debits and credits corresponding to the sub-paragraph (10) credits and debits which are brought into account in the profit and loss account or income statement when—

- (a) the hedged item is recognised; or
- (b) a forecast transaction is no longer expected to occur.

9th December 2004

Derek Twigg
Nick Ainger
Two of the Lords Commissioners of Her
Majesty's Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations allow certain profits and losses from loan relationships and derivative contracts to be left out of account, to be brought into account in a different way or to be brought into account at a later date.

Regulation 1 provides for the citation, commencement and effect.

Regulation 2 provides for the interpretation.

Regulation 3 prescribes for exchange gains or losses arising from liabilities hedging shares etc. to be disregarded where the contract is matched with shares, ships or aircraft.

Regulation 4 prescribes for exchange gains or losses arising from derivative contracts hedging shares etc. to be disregarded where the contract is matched with shares, ships or aircraft.

Regulation 5 contains provisions supplementary to regulations 3 and 4.

Regulation 6 introduces, in relation to fair value profits and losses, specific rules which are contained in regulations 7, 8 and 9 and in particular provides for the rules in those regulations to be subject to elections.

Regulation 7 prescribes fair value profits and losses arising from derivative contracts which are currency contracts.

Regulation 8 prescribes bringing fair value profits and losses into account on commodity contracts and debt contracts.

Regulation 9 prescribes profits or losses arising from derivative contracts which are interest rate contracts.

Regulation 10 brings into account profits or losses arising on currency and commodity contracts.

These Regulations do not impose any new costs on business.