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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 (S.I.2004/3256; “the Principal Regulations”) which 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 citation, commencement and effect.

Regulation 2 introduces the amendments to the Principal Regulations.

Regulation 3 amends regulation 2(1) (interpretation) of the Principal Regulations to insert definitions of new terms used in the amendments.

Regulations 4 and 5 amend regulations 3 (exchange gains or losses arising from liabilities or assets hedging shares etc.) and 4 (exchange gains or losses arising from derivative contracts hedging shares etc.) of the Principal Regulations respectively. The amendments clarify the order of priority for matching the loan relationship or derivative contract with shares, ships or aircraft; exclude certain relationships deemed to be loan relationships from regulation 3; insert a new provision in regulation 4 to explain how the value of an obligation under a derivative contract is calculated to enable the limit of matching to be determined.

Regulation 6 amends regulation 5 (regulations 3 and 4: supplementary) of the Principal Regulations to clarify the extent to which an asset is matched.

Regulation 7 amends regulation 6 (rules about fair value profits and losses) of the Principal Regulations to extend the time limit for making an election that regulations 7 to 9 of the Principal Regulations (which contain specific rules about excluding fair value profits and losses for the purposes of Schedule 26 to the Finance Act 2002 (c. 23)) shall not apply.

Regulations 8 and 9 amend regulations 7 (fair value profits or losses arising from derivative contracts which are currency contracts) and 8 (profits or losses arising from derivative contracts which are commodity contracts or debt contracts) of the Principal Regulations respectively so that fair value movements as a result of a change of accounting basis are disregarded in determining a company’s profit or loss.

Regulation 10 amends regulation 10 (bringing fair value profits or losses into account on currency and commodity contracts) of the Principal Regulations to provide how fair value profits and losses are to be brought into account in relation to expenditure which is depreciated over a period.

Regulation 11 inserts new regulations 11 and 12 into the Principal Regulations to exclude certain amounts in relation to convertible securities and loan relationships with embedded derivatives from amounts recognised in determining a company’s profit or loss.

These Regulations impose no new costs on business.