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DRAFT STATUTORY INSTRUMENTS

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**2014 No.**

**CORPORATION TAX**

**The Changes in Accounting Standards (Loan Relationships and Derivative Contracts) Regulations 2014**

*Made* - - - - - \*\*\*  
*Coming into force* - - - - - \*\*\*

The Treasury make the following Regulations in exercise of the powers conferred by section 465A of the Corporation Tax Act 2009<sup>(a)</sup>.

A draft of this instrument was laid before and approved by a resolution of the House of Commons in accordance with section 1310(4) of the Corporation Tax Act 2009<sup>(b)</sup>.

**Citation, commencement and effect**

1.—(1) These Regulations may be cited as the Changes in Accounting Standards (Loan Relationships and Derivative Contracts) Regulations 2014 and come into force on \*\*\* 2014.

(2) These Regulations have effect in relation to accounting periods beginning on or after 1 January 2014.

This is subject to paragraph (3).

(3) If in consequence of a change in accounting standards a company adopts a relevant accounting change for a period of account beginning on or after 1 October 2012, these Regulations have effect in relation to the accounting period which coincides with that period and subsequent accounting periods.

**Amendment to the Exchange Gains and Losses (Bringing into Account Gains or Losses) Regulations 2002**

2.—(1) The Exchange Gains and Losses (Bringing into Account Gains or Losses) Regulations 2002<sup>(c)</sup> are amended as follows.

(2) In regulation 13 (cases where matched assets represent loan relationships)—

(a) in paragraph (1), for “and (2A)” substitute “, (2A) and (2B)”,

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<sup>(a)</sup> 2009 c. 4; sections 465A was inserted by paragraphs 1 and 2 of Schedule 19 to the Finance Act 2010 (c. 13).

<sup>(b)</sup> Section 1310(4) was amended by paragraph 3 of Schedule 19 to the Finance Act 2010.

<sup>(c)</sup> S.I. 2002/1970, amended by S.I. 2004/3259; there are other amending instruments but none is relevant.

(b) after paragraph (2A) insert—

“(2B) The circumstances prescribed by this paragraph are where there is a disposal of an asset representing a loan relationship in relation to which amounts have fallen within regulation 12A of the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004<sup>(a)</sup>.”

(c) in paragraph (4), after “(2A)” insert “or amounts within paragraph (2B)”.

### **Amendments to the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004**

**3.—**(1) The Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 are amended as follows.

(2) After regulation 12 insert—

#### **“Loan relationships as permanent as equity**

**12A.—**(1) The amounts described in paragraph (2) are not brought into account for the purposes of Part 5 of CTA 2009 in relation to an asset representing a loan relationship of a company which is denominated in a currency which is not, or was not, the company’s functional currency, if there is change of accounting policy in drawing up a company’s accounts from one period of account to the next where the later period began on or after 1 October 2012, and in accordance with generally accepted accounting practice—

- (a) in the earlier period the loan relationship is treated (in accordance with SSAP 20) as permanent as equity and either—
  - (i) the loan relationship was brought into account at an historic rate, or
  - (ii) debits and credits in relation to the loan relationship were not brought into account by virtue of section 328(3) of CTA 2009, and
- (b) in the later period the loan relationship was brought into account at a spot rate of exchange.

(2) The amounts are—

- (a) debits and credits representing the difference between the carrying value of the loan relationship recognised for accounting purposes at the end of the earlier period and the value recognised at the beginning of the later period to the extent the debits or credits are attributable to the different rates of exchange, and
- (b) debits and credits representing exchange gains and losses arising in the later period and subsequent accounting periods in relation to the loan relationship.

(3) But an amount is not within paragraph (2)(b) to the extent that in any period —

- (a) the loan relationship is a hedged item under a hedging relationship where the hedging instrument is a liability representing a loan relationship of the company or an obligation of the company under a derivative contract to pay in exchange for one currency an amount in a second currency, or
- (b) regulation 3(5) applies in relation to the loan relationship.

(4) For the purposes of this regulation—

- (a) where there is change of accounting policy in drawing up a company’s accounts from one period of account to the next, the “earlier period” is the first of those periods of account and the “later period” is the next period;
- (b) “historic rate” and “as permanent as equity” have the same meaning as for accounting purposes;

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<sup>(a)</sup> S.I. 2004/3256, to which there are amendments not relevant to these Regulations.

- (c) “SSAP 20” means Statement of Standard Accounting Practice No.20 on Foreign Currency Translation, issued by the Accounting Standards Board on 1 April 1983.”

	<i>Name</i>
	<i>Name</i>
Date	Two of the Lords Commissioners of Her Majesty’s Treasury

### **EXPLANATORY NOTE**

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

These Regulations amend the Exchange Gains and Losses (Bringing into Account Gains or Losses) Regulations 2002 and the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 to make provision in relation to bringing into account debits and credits in respect of loan relationships treated as permanent as equity for accounting purposes.

Regulation 1 provides for citation, commencement and effect. Authority for the retrospective effect of these Regulations is given by section 465A(7) of the Corporation Tax Act 2009.

Regulation 2 amends regulation 13 of the Exchange Gains and Losses (Bringing into Account Gains or Losses) Regulations 2002 to bring into account on the disposal of an asset representing a loan relationship amounts disregarded under regulation 12A of the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004.

Regulation 4 amends the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 to insert regulation 12A which provides that on a change of accounting practice on or after 1 October 2012 certain amounts in relation to loans as permanent as equity are not brought into account.

A [Tax Information and Impact Note \(TIIN\)](#) covering this instrument will be published on GOV.UK.