
25 Loan relationships and derivative contracts: exchange gains and losses

- (1) CTA 2009 is amended as follows.
- (2) In section 447 (exchange gains and losses on debtor relationships: loans disregarded under Part 4 of TIOPA 2010), after subsection (4) insert –
 - “(4A) If the debtor relationship is to any extent matched, subsections (2) and (3) apply to leave out of account only the lesser of –
 - (a) the amount of the exchange gain or loss (in the case of subsection (2)) or the proportion of the exchange gain or loss (in the case of subsection (3)) which would be left out of account apart from this subsection, and
 - (b) the amount of the exchange gain or loss arising in respect of a liability representing the debtor relationship to the extent that the debtor relationship is unmatched (an amount which may be nil).”
- (3) In section 448 (exchange gains and losses on debtor relationships: equity notes where holder associated with issuer), at the end insert –
 - “(3) If the debtor relationship is to any extent matched, subsection (2) applies to leave out of account only the amount of the exchange gain or loss arising in respect of a liability representing the debtor relationship to the extent that the debtor relationship is unmatched (an amount which may be nil).
- (4) In section 449 (exchange gains and losses on creditor relationships: no corresponding debtor relationship), after subsection (4) insert –
 - “(4A) If the creditor relationship is to any extent matched, subsection (4) applies to leave out of account only the amount of the exchange gain or loss arising in respect of an asset representing the creditor relationship to the extent that the creditor relationship is unmatched (an amount which may be nil).”
- (5) In section 451 (exception to section 449 where loan exceeds arm’s length amount), after subsection (4) insert –
 - “(4A) If the creditor relationship is to any extent matched, subsection (4) applies to leave out of account only the lesser of –
 - (a) the proportion of the exchange gain or loss which would be left out of account apart from this subsection, and
 - (b) the amount of the exchange gain or loss arising in respect of an asset representing the creditor relationship to the extent that the creditor relationship is unmatched (an amount which may be nil).”
- (6) After section 475A insert –

“Meaning of “matched”

475B Meaning of “matched”

- (1) This section applies for the purposes of this Part.
- (2) A loan relationship is matched if and to the extent that –

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- (a) it is in a matching relationship with another loan relationship or derivative contract, or
 - (b) exchange gains or losses arising in relation to an asset or liability representing the loan relationship are excluded from being brought into account under regulations under section 328(4),and “unmatched” is to be construed accordingly.
 - (3) A loan relationship is in a matching relationship with another loan relationship or derivative contract if one is intended by the company to act to eliminate or substantially reduce the economic risk of the other.
 - (4) In this section “economic risk” means a risk which can be attributed to fluctuations in exchange rates between currencies over a period of time.
 - (5) In this section “derivative contract” has the same meaning as in Part 7 (see section 576).”
- (7) In section 694 (derivative contracts: exchange gains and losses), after subsection (3) insert—
- “(3A) If the contract is to any extent matched, subsection (3) applies to leave out of account only the lesser of—
- (a) the amount of the exchange gains or losses which would be left out of account apart from this subsection, and
 - (b) the amount of the exchange gains or losses arising to the company in relation to the contract to the extent that the derivative contract is unmatched (an amount which may be nil).”
- (8) In that section, after subsection (10) insert—
- “(11) For the purposes of this section a derivative contract is matched if and to the extent that—
- (a) it is in a matching relationship with another derivative contract or loan relationship, or
 - (b) exchange gains or losses arising in relation to the derivative contract are excluded from being brought into account under regulations under section 606(4),
- and “unmatched” is to be construed accordingly.
- (12) A derivative contract is in a matching relationship with another derivative contract or loan relationship if one is intended by the company to act to eliminate or substantially reduce the economic risk of the other.
 - (13) In this section “economic risk” means a risk which can be attributed to fluctuations in exchange rates between currencies over a period of time.
 - (14) In this section “loan relationship” has the same meaning as in Part 5 (see section 302).”
- (9) The amendments made by this section have effect in relation to accounting periods beginning on or after 1 April 2016.
- (10) For the purposes of subsection (9), where the accounting period of a company begins before 1 April 2016 and ends on or after that date (the “straddling period”), so much of the straddling period as falls before that date, and so

much of the straddling period as falls on or after that date, are to be treated as separate accounting periods.