HMRC - CFM42100 - Exchange Gains And Losses

CTA09/S486B(8)

Exchange gains and losses

Arrangements that produce returns economically equivalent to interest will not always be made in the functional or accounting currency of the company receiving the return.

Many returns from such arrangements will be in the form of an increase in the carrying value of the investment providing the return. Where that is the case, it will be necessary for the carrying value of the investment to be translated into the functional or accounting currency of the company. Consequently, the return from the investment will be subject to exchange gains and losses.

CTA09/S486B(8) makes it clear that those exchange gains and losses will be included within the debits and credits brought into account under the disguised interest rules.

Example

Company A has a functional currency of £sterling and has invested in shares in Company B in $US. The shares in Company B will produce a return to Company A that falls within the disguised interest rules.

The shares in Company B have the following fair values:

The £/$ spot rates of exchange on the appropriate days are:

The fair value of the Company B shares for the purposes of the Company A accounts are, therefore, as follows:

Consequently, S486B(8) makes it clear that the amounts to be brought into account under the disguised interest rules would be as follows:

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