HMRC - CFM57072 - Hedging: Regulation 9A

This guidance applies to periods of account starting on or after 1 January 2015 and where no election is made under regulation 6A.

Regulation 9A: Designated cash flow hedges

If a company chooses not to make an election into regulation 9 under regulation 6A, then regulation 9A will apply to its ‘currency contracts’, ‘debt contracts’, ‘commodity contracts’ and ‘interest rate contracts’ that meet the conditions in regulation 9A(1). These conditions are:

The contract is accounted for as a hedge in accordance with IFRS, New UK GAAP, or FRS 26 under Old UK GAAP of all or any of the risks arising in respect of an asset, liability, receipt or expense (‘the hedged item’), and

Fair value profits or losses on the hedging contract are recognised in accordance with GAAP in the company’s statement OCI or similar statement

This condition can only be met where the company designates the contract as a cash flow hedge. Where the conditions are met then all entries in other comprehensive income (OCI) are disregarded for tax, with taxable entries being taken directly from the income statement or profit and loss account.

Under the new ‘elect-in’ approach introduced from 1 January 2015, regulation 9A will apply by default to contracts that are designated cash flow hedges. Regulation 9A does not however apply where regulation 7, 8 or 9 has effect (e.g. where the company makes a regulation 6A election).

In practice, regulation 9A treatment may not differ significantly from regulation 9 treatment since hedge accounting for designated cash flow hedges will in many cases produce a result in the income statement similar to that given by regulation 9 (although differences will arise in respect of any ineffectiveness). The example at CFM57073 shows how regulation 9A operates.

There may, in certain situations, be differences in treatment compared with if the company had elected into regulations 7, 8 and 9. In particular, taxing credits or debits when they are recycled to profit or loss may result in a timing difference compared to the statutory ‘bringing into account’ rules of regulation 10. Differences may also arise in respect of any hedge ineffectiveness.

Where regulation 9A starts or ceases to have effect, regulation 9A(3A) provides for a ‘catch-up’ credit or debit, of such amount as is just and reasonable, to be brought into account. The just and reasonable amount will be that amount that ensures that all profits or losses on the contract (including, where appropriate, transitional credits or debits on first-time adoption of IFRS, New UK GAAP, or FRS 26 under Old UK GAAP) are taxed or relieved over the life of the contract.

Previous page

Next page