HMRC - CFM57075 - Hedging: Overview Of Regulations 7, 8 And 9

This guidance applies to periods of account starting on or after 1 January 2015.

Overview of regulations 7, 8 and 9

There are three separate regulations:

\* Regulation 7 (currency contracts) \* Regulation 8 (debt and commodity contracts) \* Regulation 9 (interest rate contracts)

The effect of these regulations is to disregard the fair value movements on the derivative and bring these back into account in line with the hedged risk.

The criteria for all regulations are broadly the same:

\* There must be a ‘designated’ or an ‘intended’ hedging relationship \* The hedged item (specifically the risk, or the part of the risk being hedged) must not be taxed on a fair value basis

Mechanics

Regulations 7 and 8 work in a similar way. Fair value movements are disregarded and brought into account in line with regulation 10. See CFM57210+.

Regulation 9 works slightly differently. Fair value movements are still disregarded but amounts are instead brought into account on the basis of an ‘appropriate accruals basis’. This broadly reflects the accounting that would have arisen had the hedging instrument and hedged item been a single instrument (i.e. in line with Old UK GAAP where FRS26 had not been adopted). See CFM57290+.

These regulations are purely about timing (subject to the operation of any other tax rule).

Elections

From 2015, regulations 7, 8 and 9 do not apply automatically and a company must make an election, under regulation 6A, for them to apply. Without an election, the default position will be to simply follow the accounts. Guidance on elections is given at CFM57360+.

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