

2006 Pre-Budget Report



**HM Revenue
& Customs**

PBRN 02

6 December 2006

INTERNATIONAL ACCOUNTING STANDARDS

Who is likely to be affected?

1. Companies that use International Accounting Standards (IAS) or UK equivalent standards in relation to financial instruments.

General description of the measure

2. Regulations, which are subject to approval by the House of Commons, were laid on 15 November 2006 to bring in a permanent regime for securitisation companies that hold financial assets.
3. An Order amending Schedule 26 to the Finance Act 2002 will be laid, clarifying the rules dealing with embedded derivatives in particular, and making other changes.
4. Amendments to the "Disregard" regulations and "Change of Accounting Practice" regulations will be made to clarify and correct the rules.

Operative date

5. The securitisation company regulations will apply for periods of account beginning on or after 1 January 2007.
6. The Schedule 26 Order will have effect for periods ending on or after the day it comes into force.
7. The amendments to the "Change of Accounting Practice" regulations will have effect for accounting periods ending on or after the date of coming into force.
8. The amendments to the "Disregard" regulations will apply to periods of account beginning on or after 1 January 2006 and ending after the date of coming into force.

Current law and proposed revisions

9. Legislation in 2005 and 2006 ensured that companies involved in securitisations were able to continue to use UK Generally Accepted Accounting Practice as it stood at 31 December 2004 ("old UK GAAP") for accounting periods beginning on or after 1 January 2005. This was to avoid disruption to the markets as a result of the increased volatility brought by the wider use of fair value accounting under IAS.
10. The securitisation regulations provide permanent tax rules, for 2007 onwards, under which such companies will be taxed on a similar basis to that which applied under old UK GAAP. The regulations apply principally to special purpose companies involved in the securitisation of financial assets.
11. Legislation will be introduced in Finance Bill 2007 to amend the powers under which regulations for such companies are made to deal with consequential changes.
12. The "Change of Accounting Practice" regulations deal with the taxation of adjustments arising on the transition to IAS. Changes will be made to correct these transitional rules in two cases and make it absolutely clear that the transition rules apply whenever a company adopts IAS.
13. The regulations also defer the corporation tax treatment of unclaimed balances arising on the transition to IAS pending the outcome of discussions with the banks about the future use of those balances.
14. The "Disregard" regulations contain rules dealing with the taxation of financial instruments used for hedging purposes. The changes provide two new elections that permit companies to follow the income statement for tax purposes in a wider range of circumstances.
15. Schedule 26 of Finance Act 2002 deals with the taxation of derivatives. The changes will be made to the rules dealing with embedded derivatives to clarify certain definitions and to prevent double counting when chargeable gains rules apply. The rules dealing with occasions when a contract becomes or ceases to be a derivative contract will also be amended. These changes are to be made by secondary legislation that will amend Schedule 26.

Further advice

16. If you have any questions about these changes, please contact Sarah Weston on 020 7147 2575 (sarah.weston@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk