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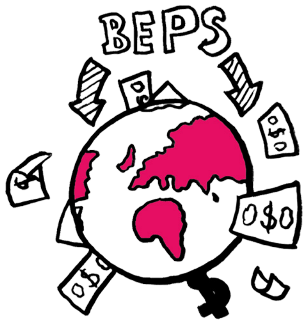


# LMA Concerns: Hybrid Mismatch Rules (Action 2) and Interest Deductibility Rules (Action 4)

The UK's Loan Market Association (LMA) has highlighted its ongoing concerns about the guidance on the hybrid mismatch rules in the Finance Act 2016 and the rules restricting the deductibility of corporate interest. (The latter were due to come into effect on 1 April 2017 although this commencement date is now uncertain following the announcement of the snap general election and the resulting truncated Finance Act 2017.)

**Hybrids**

The LMA notes that the guidance, both the original and updated version, provides for a wide interpretation of the imported mismatch rules, with the result that normal commercial lending arrangements may be caught. Specifically, the LMA flags the risk that "a UK borrower could be denied a deduction for interest payments it makes on an ordinary commercial loan because it is reasonable to assume that the lender is funded by a further loan with another party which itself gives rise to a hybrid mismatch arrangement".

**Interest Deductibility**

The LMA's continued concern about the deductibility of corporate interest rules centres on the risk that loans provided by third party lenders could be considered related party debt resulting in restricted interest deductions. The LMA believes there should be a general exemption for third party lenders advancing loans in the ordinary course of business.

**Please contact BEPS@Debevoise.com to discuss further.**