


***TD 93/D227 - Income tax: do forward foreign currency exchange contracts constitute trading stock as defined in subsection 6(1) of the Income Tax Assessment Act 1936?***

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## Draft Taxation Determination

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### **Income tax: do forward foreign currency exchange contracts constitute trading stock as defined in subsection 6(1) of the *Income Tax Assessment Act 1936*?**

1. No.
2. A forward foreign currency exchange contract is an agreement between parties to exchange an amount of one currency for an amount of another on a specific future date. The rate at which the exchange is made on a forward deal is called the forward exchange rate.
3. A purchaser under these contracts has three options:
  - (i) To take delivery of the currency on maturity of the contract.
  - (ii) To rollover the contract on maturity by entering into a further contract.
  - (iii) To close out the contract.
4. We do not consider that these contracts are trading stock as defined in subsection 6(1) as they do not constitute "... anything produced, manufactured, acquired or purchased for purposes of manufacture, sale or exchange ..." but are entered into to enable the purchaser to hedge a foreign currency exposure.

**Commissioner of Taxation**

2/9/93

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Related Determinations:

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