SCHEDULES

[F1 SCHEDULE 9A

Form and Content of Accounts of Insurance Companies and Groups]

F1	SR 1994/428

Articles 263, 263A

PART 1

INDIVIDUAL ACCOUNTS

F1	Order repealed (prosp.) by Companies Act 2006 (c. 46), ss. 1284(2), 1295, 1300(2), **Sch. 16** and the repeal being partly in force, as to which see individual Articles (with savings (with adaptations) by Companies Act 2006 (Commencement No. 6, Saving and Commencement Nos. 3 and 5 (Amendment)) Order 2008 (S.I. 2008/674), arts. 2(3), {4}, Sch. 2) and subject to amendments (6.4.2008) by Companies Act 2006 (Consequential Amendments etc) Order 2008 (S.I. 2008/948), arts. 2(2), 3(1)(b)(2), Sch. 1 paras. 135, 147, 148 {Sch. 2 Note 1} (with arts. 6, 11, 12) and subject to amendments (6.4.2008) by S.R. 2008/133, {regs. 2, 3}

CHAPTER 1

GENERAL RULES AND FORMATS

SECTION A

GENERAL RULES

1.—(1) Subject to the following provisions of this Part—

(a) every balance sheet of a company shall show the items listed in the balance sheet format set out in section B of this Chapter; and

(b) every profit and loss account of a company shall show the items listed in the profit and loss account format so set out,

in either case in the order and under the headings and sub-headings given in the format.

(2) Sub-paragraph (1) is not to be read as requiring the heading or sub-heading for any item to be distinguished by any letter or number assigned to that item in the format.

2.—(1) Any item required in accordance with paragraph 1 to be shown in a company's balance sheet or profit and loss account may be shown in greater detail than so required.

(2) A company's balance sheet or profit and loss account may include an item representing or covering the amount of any asset or liability, income or expenditure not specifically covered by any of the items listed in the balance sheet or profit and loss account format set out in section B, but the following shall not be treated as assets in any company's balance sheet—

(a) preliminary expenses;

(b) expenses of and commission on any issue of shares or debentures; and

(c) costs of research.

(3) Items to which Arabic numbers are assigned in the balance sheet format set out in section B (except for items concerning technical provisions and in reinsurers' share of technical provisions), and items to which lower case letters in parentheses are assigned in the profit and loss account format so set out (except for items within items I.1 and 4 and II.1, 5 and 6) may be combined in a company's accounts for any financial year if either—

(a) their individual amounts are not material for the purpose of giving a true and fair view; or

(b) the combination facilitates the assessment of the state of affairs or profit or loss of the company for that year;

but in a case within paragraph (b) the individual amounts of any items so combined shall be disclosed in a note to the accounts and any notes required by this Schedule to the items so combined under that paragraph shall, notwithstanding the combination be given.

(4) Subject to paragraph 3(3), a heading or sub-heading corresponding to an item listed in the format adopted in preparing a company's balance sheet or profit and loss account shall not be included if there is no amount to be shown for that item in respect of the financial year to which the balance sheet or profit and loss account relates.

3.—(1) In respect of every item shown in the balance sheet or profit and loss account, there shall be shown or stated the corresponding amount for the financial year immediately preceding that to which the accounts relate.

(2) Where the corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the balance sheet or profit and loss account relates, the former amount shall be adjusted and particulars of the adjustment and the reasons for it shall be given in a note to the accounts.

(3) Paragraph 2(4) does not apply in any case where an amount can be shown for the item in question in respect of the financial year immediately preceding that to which the balance sheet or profit and loss account relates, and that amount shall be shown under the heading or sub-heading required by paragraph 1 for that item.

4. Subject to the provisions of this Schedule, amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa.

Para. 5 rep. by SR 2004/496

6.—**[**[F1](1)**]** The provisions of this Schedule which relate to long term business shall apply, with necessary modifications,**[**[F1] to business which consists of effecting or carrying out relevant contracts of general insurance**]** which—

(a) is transacted exclusively or principally according to the technical principles of long term business, and

(b) is a significant amount of the business of the company.

[F1(2) For the purposes of sub#paragraph (1), a contract of general insurance is a relevant contract if the risk insured against relates to—

(a) accident; or

(b) sickness.

(3) Sub-paragraph (2) must be read with—

(a) section 22 of the Financial Services and Markets Act 2000;

(b) any relevant order under that section; and

(c) Schedule 2 to that Act.]

F1 SI 2001/3649

6A. The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.

SECTION B

THE REQUIRED FORMATS FOR ACCOUNTS

Preliminary

7.—(1) References in the Part to the balance sheet format or profit and loss account format are to the balance sheet format or profit and loss account format set out below, and references to the items listed in either of the formats are to those items read together with any of the notes following the formats which apply to any of those items.

(2) The requirement imposed by paragraph 1 to show the items listed in either format in the order adopted in the format is subject to any provision in the notes following the format for alternative positions for any particular items.

(3) Where in respect of any item to which an Arabic number is assigned in either format, the gross amount and reinsurance amount or reinsurers' share are required to be shown, a sub-total of those amounts shall also be given.

(4) Where in respect of any items to which an Arabic number is assigned in the profit and loss account format, separate items are required to be shown, then a separate sub-total of those items shall also be given in addition to any sub-total required by sub-paragraph (3).

8. A number in brackets following any item in either of the formats set out below is a reference to the note of that number in the notes following the format.

9.—[F2(1)] In the profit and loss account format set out below—

(a) the heading "Technical account—General business" is for[F2 business which consists of effecting or carrying out contracts of general insurance]; and

(b) the heading "Technical account—Long term business" is for[F2 business which consists of effecting or carrying out contracts of long term insurance].

[F2(2) In sub-paragraph (1), references to—

(a) contracts of general or long term insurance; and

(b) the effecting or carrying out of such contracts,

must be read with section 22 of the Financial Services and Markets Act 2000, any relevant order under that section, and Schedule 2 to that Act.]

F2	SI 2001/3649

Balance Sheet Format

ASSETS

A. *Called up share capital not paid* (1)

B. *Intangible assets*

(1) Development costs

(2) Concessions, patents, licences, trade marks and similar rights and assets (2)

(3) Goodwill (3)

(4) Payments on account

C. *Investments*

I. Land and buildings (4)

II. Investments in group undertakings and participating interests

(1) Shares in group undertakings

(2) Debt securities issued by, and loans to, group undertakings

(3) Participating interests

(4) Debt securities issued by, and loans to, undertakings in which the company has a participating interest

III. Other financial investments

(1) Shares and other variable-yield securities and units in unit trusts

(2) Debt securities and other fixed income securities (5)

(3) Participation in investment pools (6)

(4) Loans secured by mortgages (7)

(5) Other loans (7)

(6) Deposits with credit institutions (8)

(7) Other (9)

IV. Deposits with ceding undertakings (10)

D. *Assets held to cover linked liabilities* (11)

Da. *Reinsurers' share of technical provisions* (12)
(1) Provision for unearned premiums
(2) Long-term business provision
(3) Claims outstanding
(4) Provisions for bonuses and rebates
(5) Other technical provisions
(6) Technical provisions for unit-linked liabilities

E. *Debtors* (13)

I. Debtors arising out of direct insurance operations
(1) Policy holders
(2) Intermediaries

II. Debtors arising out of reinsurance operations

III. Other debtors

IV. Called up share capital not paid (1)

F. *Other assets*

I. Tangible assets
(1) Plant and machinery
(2) Fixtures, fittings, tools and equipment
(3) Payments on account (other than deposits paid on land and buildings) and assets (other than buildings) in course of construction

II. Stocks
(1) Raw materials and consumables
(2) Work in progress
(3) Finished goods and goods for resale
(4) Payments on account

III. Cash at bank and in hand

IV. Own shares (14)

V. Other (15)

G. *Repayments and accrued income*

I. Accrued interest and rent (16)

II. Deferred acquisition costs (17)

III. Other repayments and accrued income

LIABILITIES

A. *Capital and reserves*

I. Called up share capital or equivalent funds

II. Share premium account

III. Revaluation reserve

IV. Reserves
(1) Capital redemption reserves
(2) Reserve for own shares
(3) Reserves provided for by the articles of association
(4) Other reserves

V. Profit and loss account

B. *Subordinated liabilities* (18)

Ba. *Fund for future appropriations* (19)

C. *Technical provisions*
(1) Provision for unearned premiums (20)

(a) gross amount
(b) reinsurance amount (12)
(2) Long-term business provision (20) (21) (26)
(a) gross amount
(b) reinsurance amount (12)
(3) Claims outstanding (22)
(a) gross amount
(b) reinsurance amount (12)
(4) Provision for bonuses and rebates (23)
(a) gross amount
(b) reinsurance amount (12)
(5) Equalisation provision (24)
(6) Other technical provisions (25)
(a) gross amount
(b) reinsurance amount (12)

D. *Technical provisions for linked liabilities* (26)
(a) gross amount
(b) reinsurance amount (12)

E. *[F3 Provisions for other risks]*
(1) Provisions for pensions and similar obligations
(2) Provisions for taxation
(3) Other provisions

F3 SR 2004/496

F. *Deposits received from reinsurers* (27)

G. *Creditors* (28)

I. Creditors arising out of direct insurance operations

II. Creditors arising out of reinsurance operations

III. Debenture loans (29)

IV. Amounts owed to credit institutions

V. Other creditors including taxation and social security

H. *Accruals and deferred income*

Notes on the Balance Sheet Format

1) *Called up share capital not paid*

(Assets items A and E.IV)

This item may be shown in either of the positions given in the format.

2) *Concessions, patents, licences, trade marks and similar rights and assets*

(Assets item B.2)

Amounts in respect of assets shall only be included in a company's balance sheet under this item if either—

(a) the assets were acquired for valuable consideration and are not required to be shown under goodwill; or

(b) the assets in question were created by the company itself.

3) *Goodwill*

(Assets item B.3)

Amounts representing goodwill shall only be included to the extent that the goodwill was acquired for valuable consideration.

4) *Land and Buildings*

(Assets item C.1)

The amount of any land and buildings occupied by the company for its own activities shall be shown separately in the notes to the accounts.

5) *Debt securities and other fixed income securities*

(Assets item C.III.2)

This item shall comprise transferable debt securities and any other transferable fixed income securities issued by credit institutions, other undertakings or public bodies, in so far as they are not covered by Assets item C.II.2 or C.II.4.

Securities bearing interest rates that vary in accordance with specific factors, for example the interest rate on the inter-bank market or on the Euromarket, shall also be regarded as debt securities and other fixed income securities and so be included under this item.

6) *Participation in investment pools*

(Assets item C.III.3)

This item shall comprise shares held by the company in joint investments constituted by several undertakings or pension funds, the management of which has been entrusted to one of those undertakings or to one of those pension fuinds.

7) *Loans secured by mortgages and other loans*

(Assets items C.III.4 and C.III.5)

Loans to policy holders for which the policy is the main security shall be included under "Other loans" and their amount shall be disclosed in the notes to the accounts. Loans secured by mortgage shall be shown as such even where they are also secured by insurance policies. Where the amount of "Other loans" not secured by policies is material, an appropriate breakdown shall be given in the notes to the accounts.

8) *Deposits with credit institutions*

(Assets item C.III.6)

This item shall comprise sums the withdrawal of which is subject to a time restriction. Sums deposited with no such restriction shall be shown under Assets item F.III even if they bear interest.

9) *Other*

(Assets item C.III.7)

This item shall comprise those investments which are not covered by Assets items C.III.1 to 6. Where the amount of such investment is significant, they must be disclosed in the notes to the accounts.

10) *Deposits with ceding undertakings*

(Assets item C.IV)

Where the company accepts reinsurance this item shall comprise amounts, owned by the ceding undertakings and corresponding to guarantees, which are deposited with those ceding undertakings or with third parties or which are retained by those undertakings.

These amounts may not be combined with other amounts owed by the ceding insurer to the reinsurer or set off against amounts owed by the reinsurer to the ceding insurer.

Securities deposited with ceding undertakings or third parties which remain the property of the company shall be entered in the company's accounts as an investment, under the appropriate item.

11) *Assets held to cover linked liabilities*

(Assets item D)

In respect of long-term business, this item shall comprise investments made pursuant to long-term policies under which the benefits payable to the policy holder are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

This item shall also comprise investments which are held on behalf of the members of a tontine and are intended for distribution among them.

12) *Reinsurance amounts*

(Assets item Da: Liabilities items C.1(b), 2(b), 3(b), 4(b) and 6(b) and D(b))

The reinsurance amounts may be shown either under Assets item Da or under Liabilities items C.1(b), 2(b), 3(b), 4(b) and 6(b) and D(b).

The reinsurance amounts shall comprise the actual or estimated amounts which, under the contractual reinsurance arrangements, are deducted from the gross amounts of technical provisions.

As regards the provision for unearned premiums, the reinsurance amounts shall be calculated according to the methods referred to in paragraph 44 or in accordance with the terms of the reinsurance policy.

13) *Debtors*

(Assets item E)

Amounts owned by group undertakings and undertakings in which the company has a participating interest shall be shown separately as sub-items of Assets items E.I, II and III.

14) *Own shares*

(Assets item F.IV)

The nominal value of the shares shall be shown separately under this item.

15) *Other*

(Assets item F.V)

This item shall comprise those assets which are not covered by Assets F.I to IV. Where such assets are material they must be disclosed in the notes to the accounts.

16) *Accrued interest and rent*

(Assets item G.I)

This item shall comprise those items that represent interest and rent that have been earned up to the balance-sheet date but have not yet become receivable.

17) *Deferred acquisition costs*

(Assets item G.II)

This item shall comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year (“deferred acquisition costs”), except in so far as—

(a) allowance has been made in the computation of the long term business provision made under paragraph 46 and shown under Liabilities item C2 or D in the balance sheet, for—
   (i) the explicit recognition of such costs, or
   (ii) the implicit recognition of such costs by virtue of the anticipation of future income from which such costs may prudently be expected to be recovered, or

(b) allowance has been made for such costs in respect of general business policies by a deduction from the provision for unearned premiums made under paragraph 44 and shown under Liabilities item C.I in the balance sheet.

Deferred acquisition costs arising in general business shall be distinguished from those arising in long term business.

In the case of general business, the amount of any deferred acquisition costs shall be established on a basis compatible with that used for unearned premiums.

There shall be disclosed in the notes to the accounts—

(a) how the deferral of acquisition costs has been treated (unless otherwise expressly stated in the accounts), and

(b) where such costs are included as a deduction from the provisions at Liabilities item C.I, the amount of such deduction, or

(c) where the actuarial method used in the calculation of the provisions at Liabilities item C.2 or D has made allowance for the explicit recognition of such costs, the amount of the costs so recognised.

18) *Subordinated liabilities*

(Liabilities item B)

This item shall comprise all liabilities in respect of which there is a contractual obligation that, in the event of winding up or of bankruptcy, they are to be repaid only after the claims of all other creditors have been met (whether or not they are represented by certificates).

19) *Fund for future appropriations*

(Liabilities item Ba)

This item shall comprise all funds the allocation of which either to policy holders or to shareholders has not been determined by the end of the financial year.

Transfers to and from this item shall be shown in item II.12a in the profit and loss account.

20) *Provision for unearned premiums*

(Liabilities item C.1)

In the case of long-term business the provision for unearned premiums may be included in Liabilities item C.2 rather than in this item.

The provision for unearned premiums shall comprise the amount representing that part of gross premiums written which is estimated to be earned in the following financial year or to subsequent financial years.

21) *Long term business provision*

(Liabilities item C.2)

This items shall comprise the actuarially estimated value of the company's liabilities (excluding technical provisions included in Liabilities item D), including bonuses already declared and after deducting the actuarial value of future premiums.

This item shall also comprise claims incurred but not reported, plus the estimated costs of settling such claims.

22) *Claims outstanding*

(Liabilities item C.3)

This item shall comprise the total estimated ultimate cost to the company of settling all claims arising from events which have occurred up to the end of the financial year (including, in the case of general business, claims incurred but not reported) less amounts already paid in respect of such claims.

23) *Provision for bonuses and rebates*

(Liabilities item C.4)

This item shall comprise amounts intended for policy holders or contract beneficiaries by way of bonuses and rebates as defined in Note (5) on the profit and loss account format to the extent that such amounts have not been credited to policy holders or contract beneficiaries or included in Liabilities item Ba or in Liabilities item C.2.

24) *Equalisation provision*

(Liabilities item C.5)

This item shall comprise[[F4] the amount of any equalisation reserve maintained in respect of general business by the company, in accordance with rules made by the Financial Services Authority under Part X of the Financial Services and Markets Act 2000]

F4	SI 2001/3649

This item shall[[F5] also] comprise any amounts which, in accordance with Council Directive 87/343/EEC, are required to be set aside by a company to equalise fluctuations in loss ratios in future years or to provide for special risks.

F5	1995 c. 29

A company which otherwise constitutes reserves to equalise fluctuations in loss ratios in future years or to provide for special risks shall disclose that fact in the notes to the accounts.

25) *Other technical provisions*

(Liabilities item C.6)

This item shall comprise, inter alia, the provision for unexpired risks as defined in paragraph 81. Where the amount of the provision for unexpired risks is significant, it shall be disclosed separately either in the balance sheet or in the notes to the accounts.

26) *Technical provisions for linked liabilities*

(Liabilities item D)

This item shall comprise technical provisions constituted to cover liabilities relating to investment in the context of long-term policies under which the benefits payable to policy holders are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

Any additional technical provisions constituted to cover death risks, operating expenses or other risks (such as benefits payable at the maturity date or guaranteed surrender values) shall be included under Liabilities item C.2.

This item shall also comprise technical provisions representing the obligations of a tontine's organiser in relation to its members.

27) *Deposits received from reinsurers*

(Liabilities item F)

Where the company cedes reinsurance, this item shall comprise amounts deposited by or withheld from other insurance undertakings under reinsurance contracts. These amounts may not be merged with other amounts owed to or by those other undertakings.

Where the company cedes reinsurance and has received as a deposit securities which have been transferred to its ownership, this item shall comprise the amount owed by the company by virtue of the deposit.

28) *Creditors*

(Liabilities item G)

Amounts owed to group undertakings and undertakings in which the company has a participating interest shall be shown separately as sub-items.

29) *Debenture loans*

(Liabilities item G.III)

The amount of any convertible loans shall be shown separately.

Special Rules for Balance Sheet Format

Additional items

10.—(1) Every balance sheet of a company which carries on long term business shall show separately as an additional item the aggregate of any amounts included in Liabilities item A (capital and reserves) which are required not to be treated as realised profits under Article 276.

(2) A company which carries on long term business shall show separately, in the balance sheet or in the notes to the accounts, the total amount of assets representing the long term fund valued in accordance with the provisions of this Schedule.

Managed funds

11.—(1) For the purposes of this paragraph "managed funds" are funds of a group pension fund—

[F6(a) the management of which constitutes long term insurance business, and]

(b) which the company administers in its own name but on behalf of others, and

(c) to which it has legal title.

(2) The company shall, in any case where assets and liabilities arising in respect of managed funds fall to be treated as assets and liabilities of the company, adopt the following accounting treatment: assets and liabilities representing managed funds are to be included in the company's balance sheet, with notes to the accounts disclosing the total amount included with respect to such assets and liabilities in the balance sheet and showing the amount included under each relevant balance sheet item in respect of such assets or (as the case may be) liabilities.

F6	SI 2001/3649

Deferred acquisition costs

12. The costs of acquiring insurance policies which are incurred during a financial year but which relate to a subsequent financial year shall be deferred in a manner specified in Note (17) on the balance sheet format.

Profit and loss account format

I. *Technical account—General business*

(1) Earned premiums, net of reinsurance

(a) gross premiums written (1)

(b) outward reinsurance premiums (2)

(c) change in the gross provision for unearned premiums

(d) change in the provision for unearned premiums, reinsurers' share

(2) Allocated investment return transferred from the non-technical account (item III.6) (10)

(2a) Investment income (8) (10)

(a) income from participating interests, with a separate indication of that derived from group undertakings

(b) income from other investments, with a separate indication of that derived from group undertakings

(aa) income from land and buildings

(bb) income from other investments

(c) value re-adjustments on investments

(d) gains on the realisation of investments

(3) Other technical income, net of reinsurance

(4) Claims incurred, net of reinsurance (4)

(a) claims paid

(aa) gross amount

(bb) reinsurers' share

(b) change in the provision for claims

(aa) gross amount

(bb) reinsurers' share

(5) Changes in other technical provisions, net of reinsurance, not shown under other headings

(6) Bonuses and rebates, net of reinsurance (5)

(7) Net operating expenses

(a) acquisition costs (6)

(b) change in deferred acquisition costs

(c) administrative expenses (7)

(d) reinsurance commissions and profit participation

(8) Other technical charges, net of reinsurance

(8a) Investment expenses and charges (8)

(a) investment management expenses, including interest

(b) value adjustments on investments
(c) losses on the realisation of investments
(9) Change in the equalisation provision
(10) Sub-total (balance on the technical account for general business) (item III.1)

II. *Technical account—long term business*
(1) Earned premiums, net of reinsurance
(a) gross premiums written (1)
(b) outward reinsurance premiums (2)
(c) change in the provision for unearned premiums, net of reinsurance (3)
(2) Investment income (8) (10)
(a) income from participating interests, with a separate indication of that derived from group undertakings
(b) income from other investments, with a separate indication of that derived from group undertakings
(aa) income from land and buildings
(bb) income from other investments
(c) value re-adjustments on investments
(d) gains on the realisation of investments
(3) Unrealised gains on investments (9)
(4) Other technical income, net of reinsurance
(5) Claims incurred, net of reinsurance (4)
(a) claims paid
(aa) gross amount
(bb) reinsurers' share
(b) change in the provision for claims
(aa) gross amount
(bb) reinsurers' share
(6) Change in other technical provisions, net of reinsurance, not shown under other headings
(a) long-term business provision, net of reinsurance (3)
(aa) gross amount
(bb) reinsurers' share
(b) other technical provisions, net of reinsurance
(7) Bonuses and rebates, net of reinsurance (5)
(8) Net operating expenses
(a) acquisition costs (6)
(b) change in deferred acquisition costs
(c) administrative expenses (7)
(d) reinsurance commissions and profit participation
(9) Investment expenses and charges (8)

(a) investment management expenses, including interest

(b) value adjustments on investments

(c) losses on the realisation of investments

(10) Unrealised losses on investment (9)

(11) Other technical charges, net of reinsurance

(11a) Tax attributable to the long-term business

(12) Allocated investment return transferred to the non-technical account (item III.4)

(12a) Transfers to or from the fund for future appropriations

(13) Sub-total (balance on the technical account—long term business) (item III.2)

III. *Non-technical account*

(1) Balance on the general business technical account—(item I.10)

(2) Balance on the long-term business technical account—(item II.13)

[F7(2a) Tax credit attributable to balance on the long term business technical account]

(3) Investment income (8)

(a) income from participating interests, with a separate indication of that derived from group undertakings

(b) income from other investments, with a separate indication of that derived from group undertakings

(aa) income from land and buildings

(bb) income from other investments

(c) value re-adjustments on investments

(d) gains on the realisation of investments

(3a) Unrealised gains on investments (9)

(4) Allocated investment return transferred from the long-term business technical account (item II.12) (10)

(5) Investment expenses and charges (8)

(a) investment management expenses, including interest

(b) value adjustments on investments

(c) losses on the realisation of investments

(5a) Unrealised losses on investments (9)

(6) Allocated investment return transferred to the general business technical account (item I.2) (10)

(7) Other income

(8) Other charges, including value adjustments

(8a) Profit or loss on ordinary activities before tax

(9) Tax on profit or loss on ordinary activities

(10) Profit or loss on ordinary activities after tax

(11) Extraordinary income

(12) Extraordinary charges

(13) Extraordinary profit or loss

(14) Tax on extraordinary profit or loss

(15) Other taxes not shown under the preceding items

(16) Profit or loss for the financial year

F7 SR 1997/314

Notes on the profit and loss account format

(1) *Gross Premiums Written*

(General business technical account: item I.1(a)

Long-term business technical account: item II.1(a))

This item shall comprise all amounts due during the financial year in respect of insurance contacts entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year, and shall include inter alia—

(i) premiums yet to be determined, where the premium calculation can be done only at the end of the year;

(ii) single premiums, including annuity premiums, and, in long-term business, single premiums resulting from bonus and rebate provisions in so far as they must be considered as premiums under the terms of the contract;

(iii) additional premiums in the case of half-yearly, quarterly or monthly payments and additional payments from policy holders for expenses borne by the company;

(iv) in the case of co-insurance, the company's portion of total premiums;

(v) reinsurance premiums due from ceding and retroceding insurance undertakings, including portfolio entries,

after deduction of cancellations and portfolio withdrawals credited to ceding and retroceding insurance undertakings.

The above amounts shall not include the amounts of taxes or duties levied with premiums.

(2) *Outward reinsurance premiums*

(General business technical account: item I.1(b)

Long-term business technical account: item II.1.(b))

This item shall comprise all premiums paid or payable in respect of outward reinsurance contacts entered into by the company. Portfolio entries payable on the conclusion or amendment of outward insurance contracts shall be added; portfolio withdrawals receivable must be deducted.

(3) *Change in the provision for unearned premiums, net of reinsurance*

(Long-term business technical account: items II.1(c) and II.6(a))

In the case of long-term business, the change in unearned premiums may be included either in item II.1(c) or in item II.6(a) of the long-term business technical account.

(4) *Claims incurred, net of reinsurance*

(General business technical account: item I.4)

Long-term business technical account: item II.5)

This item shall comprise all payments made in respect of the financial year with the addition of the provision for claims (but after deducting the provision for claims for the preceding financial year).

These amounts shall include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance undertakings and reinsurers and external and internal claims management costs and charges for claims incurred but not reported such as are referred to in paragraphs 47(2) and 49.

Sums recoverable on the basis of subrogation and salvage (within the meaning of paragraph 47) shall be deducted.

Where the difference between—

(a) the loss provision made at the beginning of the year for outstanding claims incurred in previous years, and

(b) the payments made during the year on account of claims incurred in previous years and the loss provision shown at the end of the year for such outstanding claims,

is material, it shall be shown in the notes to the accounts, broken down by category and amount.

(5) *Bonuses and rebates, net of reinsurance*

(General business technical account: item I.6

Long-term business technical account: item II.7)

Bonuses shall comprise all amounts chargeable for the financial year which are paid or payable to policy holders and other insured parties or provided for their benefit, including amounts used to increase technical provisions or applied to the reduction of future premiums, to the extent that such amounts represent an allocation of surplus or profit arising on business as a whole or a section of business, after deduction of amounts provided in previous years which are no longer required.

Rebates shall comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

Where material, the amount charged for bonuses and that charged for rebates shall be disclosed separately in the notes to the accounts.

(6) *Acquisition costs*

(General business technical account: item I.7(a)

Long-term business technical account: item II.8(a))

This item shall comprise the costs arising from the conclusion of insurance contracts. They shall cover both direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

In the case of long-term business, policy renewal commissions shall be included under item II.8(c) in the long term business technical account.

(7) *Administrative expenses*

(General business technical account: item I.7(c)

Long-term business technical account; item II.8(c))

This item shall include the costs arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance. They shall in particular include staff costs and depreciation provisions in respect of office furniture and equipment in so far as these need not be shown under acquisition costs, claims incurred or investment charges.

(Item II) shall also include policy renewal commissions.

(8) *Investment income, expenses and charges*

(General business technical account: items I.2a and 8a

Long-term business technical account: items II.2 and 9

Non-technical account: items III.3 and 5)

Investment income, expenses and charges shall, to the extent that they arise in the long-term fund, be disclosed in the long-term business technical account. Other investment income, expenses and charges shall either be disclosed in the non-technical account or attributed between the appropriate technical and non-technical accounts. Where the company makes such an attribution it shall disclose the basis for it in the notes to the accounts.

(9) *Unrealised gains and losses on investments*

(Long-term business technical account: items II.3 and 10

Non-technical account: items III.3a and 5a)

In the case of investments attributed to the long-term fund, the difference between the valuation of the investments and their purchase price or, if they have previously been valued, their valuation as at the last balance sheet date, may be disclosed (in whole or in part) in item II.3 or II.10 (as the case may be) of the long-term business technical account, and the in the case of investments shown as assets under Assets item D (assets held to cover linked liabilities) shall be so disclosed.

In the case of other investments, the difference between the valuation of the investments and their purchase price or, if they have previously been valued, their valuation as at the last balance sheet date, may be disclosed (in whole or in part) in item III.3a or III.5a (as the case may require) of the non-technical account.

(10) *Allocated investment return*

(General business technical account: items I.2 and 2a

Long-term business technical account: item II.2

Non-technical account: items III.4 and 6)

The allocated return may be transferred from one part of the profit and loss account to another.

Where part of the investment return is transferred to the general gusiness technical account, the transfer from the non-technical account shall be deducted from item III.6 and added to item I.2.

Where part of the investment return disclosed in the long term business technical account is transferred to the non-technical account, the transfer to the non-technical account shall be deducted from item II.12 and added to item III.4.

The reasons for such transfers (which may consist of a reference to any relevant statutory requirement) and the bases on which they are made shall be disclosed in the notes to the accounts.

CHAPTER II

ACCOUNTING PRINCIPALS AND RULES

SECTION A

ACCOUNTING PRINICPLES

Preliminary

13. Subject to paragraph 19, the amounts to be included in respect of all items shown in a company's accounts shall be determined in accordance with the principles set out in paragraphs 14 to 18.

Accounting principles

14. The company shall be presumed to be carrying on business as a going concern.

15. Accounting policies shall be applied consistently within the same accounts and from one financial year to the next.

16. The amount of any item shall be determined on a prudent basis, and in particular—

(a) subject to note (9) on the profit and loss account format, only profits realised at the balance sheet date shall be included in the profit and loss account; and

(b) all liabilities[F8]. . . which have arisen[F8]. . . in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in pursuance of Article 241.

F8	SR 2004/496

17. All income and charges relating to the financial year to which the accounts relate shall be taken into account, without regard to the date of receipt or payment.

18. In determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately.

Departure from accounting principles

19. If it appears to the directors of a company that there are special reasons for departing from any of the principles stated above in preparing the company's accounts in respect of any financial year they may do so, but particulars of the departure, the reasons for it and its effects shall be given in a note to the accounts.

Valuation

19A.—(1) The amounts to be included in respect of assets of any description mentioned in paragraph 22 (valuation of assets: general) are determined either—

(a) in accordance with that paragraph and paragraph 24 (but subject to paragraphs 27 to 29); or

(b) so far as applicable to an asset of that description, in accordance with section BA (valuation at fair value).

(2) The amounts to be included in respect of assets of any description mentioned in paragraph 23 (alternative valuation of fixed-income securities) may be determined—

(a) in accordance with that paragraph (but subject to paragraphs 27 to 29); or

(b) so far as applicable to an asset of that description, in accordance with section BA.

(3) The amounts to be included in respect of assets which—

(a) are not assets of a description mentioned in paragraph 22 or 23, but

(b) are assets of a description to which section BA is applicable,

may be determined in accordance with that section.

(4) Subject to sub-paragraphs (1) to (3), the amounts to be included in respect of all items shown in a company's accounts are determined in accordance with section C.

SECTION B
CURRENT VALUE ACCOUNTING RULES

Para. 20 rep. by SR 2004/496

Para. 21 rep. by SR 1997/314

Valuation of assets: general

22.—(1) Subject to paragraph 24, investments falling to be included under Assets item C (investments) shall be included at their current value calculated in accordance with paragraphs 25 and 26.

(2) Investments falling to be included under Assets item D (assets held to cover linked liabilities) shall be shown at their current value calculated in accordance with paragraphs 25 and 26.

23.—(1) Intangible assets other than goodwill may be shown at their current cost.

(2) Assets falling to be included under Assets items F.I (tangible assets) and F.IV (own shares) in the balance sheet format may be shown at their current value calculated in accordance with paragraphs 25 and 26 or at their current cost.

(3) Assets falling to be included under Assets item F.II (stocks) may be shown at current cost.

Alternative valuation of fixed-income securities

24.—(1) This paragraph applies to debt securities and other fixed-income securities shown as assets under Assets items C.II (investments in group undertakings and participating interests) and C.III (other financial investments).

(2) Securities to which this paragraph applies may either be valued in accordance with paragraph 22 or the amortised value may be shown in the balance sheet, in which case the provisions of this paragraph apply.

(3) Subject to sub-paragraph (4), where the purchase price of securities to which this paragraph applies exceeds the amount repayable at maturity, the amount of the difference—

(a) shall be charged to the profit and loss account, and

(b) shall be shown separately in the balance sheet or in the notes to the accounts.

(4) The amount of the difference referred to in sub-paragraph (3) may be written off in instalments so that it is completely written off when the securities are repaid, in which case there shall be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (less the aggregate amount written off) and the amount repayable at maturity.

(5) Where the purchase price of securities to which this paragraph applies is less than the amount repayable at maturity, the amount of the difference shall be released to income in instalments over the period remaining until repayment, in which case there shall be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (plus the aggregate amount released to income) and the amount repayable at maturity.

(6) Both the purchase price and the current value of securities valued in accordance with this paragraph shall be disclosed in the notes to the accounts.

(7) Where securities to which this paragraph applies which are not valued in accordance with paragraph 22 are sold before maturity, and the proceeds are used to purchase other securities to which this paragraph applies, the difference between the proceeds of sale and their book value may be spread uniformly over the period remaining until the maturity of the original investment.

Meaning of " current value "

25.—(1) Subject to sub-paragraph (5), in the case of investments other than land and buildings, current value shall mean market value determined in accordance with this paragraph.

(2) In the case of listed investments, market value shall mean the value on the balance sheet date or, when the balance sheet date is not a stock exchange trading day, on the last stock exchange trading day before that date.

(3) Where a market exists for unlisted investments, market value shall mean the average price at which such investments were traded on the balance sheet date or, when the balance sheet date is not a trading day, on the last trading day before that date.

(4) Where, on the date on which the accounts are drawn up, listed or unlisted investments have been sold or are to be sold within the short-term, the market value shall be reduced by the actual or estimated realisation costs.

(5) Except where the equity method of accounting is applied, all investments other than those referred to in sub-paragraphs (2) and (3) shall be valued on a basis which has prudent regard to the likely realisable value.

26.—(1) In the case of land and buildings, current value shall mean the market value on the date of valuation, where relevant reduced as provided in sub-paragraphs (4) and (5).

(2) Market value shall mean the price at which land and buildings could be sold under private contact between a willing seller and an arm's length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of the sale.

(3) The market value shall be determined through the separate valuation of each land and buildings item, carried out at least every five years in accordance with generally recognised methods of valuation.

(4) Where the value of any land and buildings item has diminished since the preceding valuation under sub-paragraph (3), an appropriate value adjustment shall be made.

(5) The lower value arrived at under sub-paragraph (4) shall not be increased in subsequent balance sheets unless such increase results from a new determination of market value arrived at in accordance with sub-paragraphs (2) and (3).

(6) Where, on the date on which the accounts are drawn up, land and buildings have been sold or are to be sold within the short-term, the value arrived at in accordance with sub-paragraphs (2) and (4) shall be reduced by the actual or estimated realisation costs.

(7) Where it is impossible to determine the market value of a land and buildings item, the value arrived at on the basis of the principle of purchase price or production cost shall be deemed to be its current value.

Application of the depreciation rules

27.—(1) Where

(a) the value of any asset of a company is determined in accordance with paragraph 22 or 23, and

(b) in the case of a determination under paragraph 22, the asset falls to be included under Assets item C.I,

that value shall be, or (as the case may require) be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its cost or any value previously so determined for that asset; and paragraphs 31 to 25 and 37 shall apply accordingly in relation to any such asset with the substitution for any reference to its cost of a reference to the value most recently determined for that asset in accordance with paragraph 22 or 23 (as the case may be).

(2) The amount of any provision for depreciation required in the case of any asset by paragraph 32 or 33 as it applies by virtue of sub-paragraph (1) is referred to in this paragraph as the "adjusted amount", and the amount of any provision which would be required by that paragraph in the case of that asset according to the historical cost accounting rules is referred to as the "historical cost amount".

(3) Where sub-paragraph (1) applies in the case of any asset the amount of any provision for depreciation in respect of that asset included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

Additional information to be provided

28.—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a company's accounts have been determined in accordance with paragraph 22 or 23.

(2) The items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item shall be disclosed in a note to the accounts.

(3) The purchase price of investments valued in accordance with paragraph 22 shall be disclosed in the notes to the accounts.

(4) In the case of each balance sheet item valued in accordance with paragraph 23 either—

(a) the comparable amounts determined according to the historical cost accounting rules (without any provision for depreciation or diminution in value); or

(b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item,

shall be shown separately in the balance sheet or in a note to the accounts.

(5) In sub-paragraph (4), references in relation to any item to the comparable amounts determined as there mentioned are references to—

(a) the aggregate amount which would be required to be shown in respect of that item if the amounts to be included in respect of all the assets covered by that item were determined according to the historical cost accounting rules; and

(b) the aggregate amount of the cumulative provisions for depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.

Revaluation reserve

29.—(1) Subject to sub-paragraph (7), with respect to any determination of the value of an asset of a company in accordance with paragraph 22 or 23, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) shall be credited or (as the case may be) debited to a separate reserve ("the revaluation reserve").

(2) The amount of the revaluation reserve shall be shown in the company's balance sheet under Liabilities item A.III, but need not be shown under the name "revaluation reserve".

(3) An amount may be transferred

[[F9](a) from the revaluation reserve—

(i) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or

(ii) on capitalisation,

(b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve;**]**

and the revaluation reserve shall be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) In**[**[F9] sub-paragraph (3)(a)(ii)**]** "capitalisation", in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.

(5) The revaluation reserve shall not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve shall be disclosed in a note to the accounts.

(7) This paragraph does not apply to the difference between the valuation of investments and their purchase price or previous valuation shown in the long-term business technical account or the non-technical account in accordance with note (9) on the profit and loss account format.

F9	SR 1997/314

SECTION BA

VALUATION AT FAIR VALUE

Inclusion of financial instruments at fair value

29A.—(1) Subject to sub-paragraphs (2) to (4), financial instruments (including derivatives) may be included at fair value.

(2) Sub-paragraph (1) does not apply to financial instruments which constitute liabilities unless—

(a) they are held as part of a trading portfolio, or

(b) they are derivatives.

(3) Except where they fall to be included under Assets item D (assets held to cover linked liabilities), sub#paragraph (1) does not apply to—

(a) financial instruments (other than derivatives) held to maturity;

(b) loans and receivables originated by the company and not held for trading purposes;

(c) interests in subsidiary undertakings, associated undertakings and joint ventures;

(d) equity instruments issued by the company;

(e) contracts for contingent consideration in a business combination;

(f) other financial instruments with such special characteristics that the instruments, according to generally accepted accounting principles or practice, should be accounted for differently from other financial instruments.

(4) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 29B, sub#paragraph (1) does not apply to that financial instrument.

(5) In this paragraph—

"associated undertaking" has the meaning given by paragraph 20 of Schedule 4A; and

"joint venture" has the meaning given by paragraph 19 of that Schedule.

Determination of fair value

29B.—(1) The fair value of a financial instrument is determined in accordance with this paragraph.

(2) If a reliable market can readily be identified for the financial instrument, its fair value is determined by reference to its market value.

(3) If a reliable market cannot readily be identified for the financial instrument but can be identified for its components or for a similar instrument, its fair value is determined by reference to the market value of its components or of the similar instrument.

(4) If neither sub#paragraph (2) nor (3) applies, the fair value of the financial instrument is a value resulting from generally accepted valuation models and techniques.

(5) Any valuation models and techniques used for the purposes of sub#paragraph (4) must ensure a reasonable approximation of the market value.

Inclusion of hedged items at fair value

29C. A company may include any assets and liabilities that qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, at the amount required under that system.

Other assets that may be included at fair value

29D.—(1) This paragraph applies to—

(a) investment property, and

(b) living animals and plants,

that, under international accounting standards, may be included in accounts at fair value.

(2) Such investment property and such living animals and plants may be included at fair value, provided that all such investment property or, as the case may be, all such living animals and plants are so included where their fair value can reliably be determined.

(3) In this paragraph, “fair value” means fair value determined in accordance with relevant international accounting standards.

Accounting for changes in value

29E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 29A or 29C or an asset is valued in accordance with paragraph 29D.

(2) Notwithstanding paragraph 16, and subject to sub#paragraphs (3) and (4), a change in the value of the financial instrument or of the investment property or living animal or plant must be included in the profit and loss account.

(3) Where—

(a) the financial instrument accounted for is a hedging instrument under a hedge accounting system that allows some or all of the change in value not to be shown in the profit and loss account, or

(b) the change in value relates to an exchange difference arising on a monetary item that forms part of a company's net investment in a foreign entity,

the amount of the change in value must be credited to or (as the case may be) debited from a separate reserve (“the fair value reserve”).

(4) Where the instrument accounted for—

(a) is an available for sale financial asset, and

(b) is not a derivative,

the change in value may be credited to or (as the case may be) debited from the fair value reserve.

The fair value reserve

29F.—(1) The fair value reserve must be adjusted to the extent that the amounts shown in it are no longer necessary for the purposes of paragraph 29E(3) or (4).

(2) The treatment for taxation purposes of amounts credited to or debited from the fair value reserve shall be disclosed in a note to the accounts.

SECTION C

HISTORICAL COST ACCOUNTING RULES

Para. 30 rep. by SR 2004/496

Valuation of assets

General rules

31. Subject to any provision for depreciation or diminution in value made in accordance with paragraph 32 or 33, the amount to be included in respect of any asset in the balance sheet format shall be its cost.

32. In the case of any asset included under Assets item B (intangible assets), C.I. (land and buildings), F.I. (tangible assets) or F.II (stocks) which has a limited useful economic life, the amount of—

(a) its cost; or

(b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its cost less that estimated residual value,

shall be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.

33.—(1) This paragraph applies to any asset included under Assets item B (intangible assets), C (Investments), F.I (tangible assets) or F.IV (own shares).

(2) Where an asset to which this paragraph applies has diminished in value, provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(3) Provisions for diminution in value shall be made in respect of any asset to which this paragraph applies if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it shall be reduced accordingly; and any such provisions which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

(4) Where the reasons for which any provision was made in accordance with sub-paragraph (1) or (2) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary; and any amounts written back in accordance with this sub-paragraph which are not shown in the profit and loss account shall be disclosed (either separately or in aggregate) in a note to the accounts.

34.—(1) This paragraph applies to assets included under Assets items E.I, II and III (debtors) and F.III (cash at bank and in hand) in the balance sheet.

(2) If the net realisable value of an asset to which this paragraph applies is lower than its cost the amount to be included in respect of that asset shall be the net realisable value.

(3) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (2) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary.

Development costs

35.—(1) Notwithstanding that amounts representing "development costs" may be included under Assets item B (intangible assets) in the balance sheet format, an amount may only be included in a company's balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a company's balance sheet in respect of development costs the following information shall be given in a note to the accounts—

(a) the period over which the amount of those costs originally capitalised is being or is to be written off; and

(b) the reasons for capitalising the development costs in question.

Goodwill

36.—(1) The application of paragraphs 31 to 33 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following provisions of this paragraph.

(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a company shall be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen shall not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a company is included as an asset in the company's balance sheet the period chosen for writing off the consideration for that goodwill and the reasons for choosing that period shall be disclosed in a note to the accounts.

Miscellaneous and supplemental

Excess of money owed over value received as an asset item

37.—(1) Where the amount repayable on any debt owned by a company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

(a) it shall be written off by reasonable amounts each year and must be completely written off before repayment of the debt; and

(b) if the current amount is not shown as a separate item in the company's balance sheet it must be disclosed in a note to the accounts.

Assets included at a fixed amount

38.—(1) Subject to sub-paragraph (2), assets which fall to be included under Assets item F.I (tangible assets) in the balance sheet format may be included at a fixed quantity and value.

(2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced, where—

(a) their overall value is not material to assessing the company's state of affairs; and

(b) their quantity, value and composition are not subject to material variation.

Determination of cost

39.—(1) The cost of an asset that has been acquired by the company shall be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The cost of an asset constructed by the company shall be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the construction of that asset.

(3) In addition, there may be included in the cost of an asset constructed by the company—

(a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the construction of that asset, but only to the extent that they relate to the period of construction; and

(b) interest on capital borrowed to finance the construction of that asset, to the extent that it accrues in respect of the period of construction;

provided, however, in a case within sub-paragraph (b), that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

40.—(1) Subject to the qualification mentioned below, the cost of any assets which are fungible assets may be determined by the application of any of the methods mentioned in sub-paragraph (2) in relation to any such assets of the same class.
The method chosen must be one which appears to the directors to be appropriate in the circumstances of the company.

(2) Those methods are—

(a) the method known as "first in, first out" (FIFO);

(b) the method known as "last in, first out" (LIFO);

(c) a weighted average price; and

(d) any other method similar to any of the methods mentioned above.

(3) Where in the case of any company—

(a) the cost of assets falling to be included under any item shown in the company's balance sheet has been determined by the application of any method permitted by this paragraph; and

(b) the amount shown in respect of that differs materially from the relevant alternative amount given below in this paragraph;

the amount of that difference shall be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5), for the purposes of sub-paragraph (3)(b), the relevant alternative amount, in relation to any item shown in a company's balance sheet, is the amount which would have been shown in respect of that item if assets of any class included under that item at an amount determined by any method permitted by this paragraph had instead been included at their replacement cost as at the balance sheet date.

(5) The relevant alternative amount may be determined by reference to the most recent actual purchase price before the balance sheet date of assets of any class included under the item in question instead of by reference to their replacement cost as at that date, but only if the former appears to the directors of the company to constitute the more appropriate standard of comparison in the case of assets of that class.

Substitution of original amount where price or cost unknown

41. Where there is no record of the purchase price of any asset acquired by a company or of any price, expenses or costs relevant for determining its costs in accordance with paragraph 39, or any such record cannot be obtained without unreasonable expense or delay, its costs shall be taken for the purposes of paragraphs 31 to 36 to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the company.

SECTION D

RULES FOR DETERMINING PROVISIONS

Preliminary

42. Provisions which are to be shown in a company's accounts shall be determined in accordance with paragraphs 43 to 53.

Technical provisions

43. The amount of technical provisions must at all times be sufficient to cover any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

Provision for unearned premiums

44.—(1) The provision for unearned premiums shall in principle be computed separately for each insurance contract, save that statistical methods (and in particular proportional and flat rate methods) may be used where they may be expected to give approximately the same results as individual calculations.

(2) Where the pattern of risk varies over the life of a contract, this shall be taken into account in the calculation methods.

Provision for unexpired risks

45. The provision for unexpired risks (as defined in paragraph 81) shall be computed on the basis of claims and administrative expense likely to arise after the end of the financial year from contracts concluded before that date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Long term business provision

46.—(1) The long-term business provision shall in principal be computed separately for each long-term contract, save that statistical or mathematical methods may be used where they may be expected to give approximately the same results as individual calculations.

(2) A summary of the principal assumptions in making the provision under sub-paragraph (1) shall be given in the notes to the accounts.

(3) The computation shall be made annually by a Fellow of the Institute or Faculty of Actuaries on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in Council Directive 92/96/EEC.

Provisions for claims outstanding

General business

47.—(1) A provision shall in principle be computed separately for each claim on the basis of the costs still expected to arise, save that statistical methods may be used if they result in an adequate provision having regard to the nature of the risks.

(2) This provision shall also allow for claims incurred but not reported by the balance sheet date, the amount of the allowance being determined having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(3) All claims settlement costs (whether direct or indirect) shall be included in the calculation of the provision.

(4) Recoverable amounts arising out of subrogation or salvage shall be estimated on a prudent basis and either deducted from the provision for claims outstanding (in which case if the amounts are material they shall be shown in the notes to the accounts) or shown as assets.

(5) In sub-paragraph (4), "subrogation" means the acquisition of the rights of policy holders with respect to third parties, and "salvage" means the acquisition of the legal ownership of insured property.

(6) Where benefits resulting from a claim must be paid in the form of annuity, the amounts to be set aside for that purpose shall be calculated by recognised actuarial methods, and paragraph 48 shall not apply to such calculations.

(7) Implicit discounting or deductions, whether resulting from the placing of a current value on a provision for an outstanding claim which is expected to be settled later at a higher figure or otherwise effected, is prohibited.

48.—(1) Explicit discounting or deductions to take account of investment income is permitted, subject to the following conditions—

(a) the expected average interval between the date for the settlement of claims being discounted and the accounting date shall be at least four years;

(b) the discounting or deductions shall be effected on a recognised prudential basis;

(c) when calculating the total cost of settling claims, the company shall take account of all factors that could cause increases in that cost;

(d) the company shall have adequate date at its disposal to construct a reliable model of the rate of claims settlements;

(e) the rate of interest used for the calculation of present values shall not exceed a rate prudently estimated to be earned by assets of the company which are appropriate in magnitude and nature to cover the provisions for claims being discounted during the period necessary for the payment of such claims, and shall not exceed either—

(i) a rate justified by the performance of such assets over the preceding five years, or

(ii) a rate justified by the performance of such assets during the year preceding the balance sheet date.

(2) When discounting or effecting deductions, the company shall, in the notes to the accounts, disclose—

(a) the total amount of provisions before discounting or deductions,

(b) the categories of claims which are discounted or from which deductions have been made,

(c) for each category of claims, the methods used, in particular the rates used for the estimates referred to in sub-paragraph (1)(d) and (e), and the criteria adopted for estimating the period that will elapse before the claims are settled.

Long term business

49. The amount of the provision for claims shall be equal to the sums due to beneficiaries, plus the costs of settling claims.

Equalisation reserves

[[F10]**50]. [**[F10]The amount of any equalisation reserve maintained in respect of general business, in accordance with rules made by the Financial Services Authority under Part X of the Financial Services and Markets Act 2000, shall be determined in accordance with such rules.**]**

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Accounting on a non-annual basis

51.—(1) Either of the methods described in paragraphs 52 and 53 may be applied where, because of the nature of the class or type of insurance in question, information about premiums receivable or claims payable (or both) for the underwriting years is insufficient when the accounts are drawn up for reliable estimates to be made.

(2) The use of either of the methods referred to in sub-paragraph (1) shall be disclosed in the notes to the accounts together with the reasons for adopting it.

(3) Where one of the methods referred to in sub-paragraph (1) is adopted, it shall be applied systematically in successive years unless circumstances justify a change.

(4) In the event of a change in the method applied, the effect on the assets, liabilities, financial position and profit or loss shall be stated in the notes to the accounts.

(5) For the purposes of this paragraph and paragraph 52, "underwriting year" means the financial year in which the insurance contracts in the class or type of insurance in question commenced.

52.—(1) The excess of the premiums written over the claims and expenses paid in respect of contracts commencing in the underwriting year shall form a technical provision included in the technical provision for claims outstanding shown in the balance sheet under Liabilities item C.3.

(2) The provision may also be computed on the basis of a given percentage of the premiums written where such a method is appropriate for the type of risk insured.

(3) If necessary, the amount of this technical provision shall be increased to make it sufficient to meet present and future obligations.

(4) The technical provision constituted under this paragraph shall be replaced by a provision for claims outstanding estimated in accordance with paragraph 47 as soon as sufficient information has been gathered and not later than the end of the third year following the underwriting year.

(5) The length of time that elapses before a provision for claims outstanding is constituted in accordance with sub-paragraph (4) shall be disclosed in the notes to the accounts.

53.—(1) The figures shown in the technical account or in certain items within it shall relate to a year which wholly or partly precedes the financial year (but by no more than 12 months).

(2) The amounts of the technical provisions shown in the accounts shall if necessary be increased to make then sufficient to meet present and future obligations.

(3) The length of time by which the earlier year to which the figures relate precedes the financial year and the magnitude of the transactions concerned shall be disclosed in the notes to the accounts.

Status:
Point in time view as at 01/01/2006.

Changes to legislation:
There are currently no known outstanding effects for the The Companies (Northern Ireland) Order 1986 (revoked), PART 1.