

SCHEDULE 1

Regulation 3

IAS ACCOUNTS: CONSEQUENTIAL AMENDMENTS TO 1985 ACT

1. The 1985 Act is amended as follows.
2. In section 152(2) (definition of “net assets” for Chapter 6 of Part 5), after “Schedule 4” insert “that is made in Companies Act individual accounts and any provision that is made in IAS individual accounts”.
3. In section 172(2) (determination of availability of profits where private company wishes to redeem or purchase own shares out of capital)—
 - (a) after “reference to” insert “the following items as stated in the relevant accounts for determining the permissible capital payments for shares”,
 - (b) in paragraph (b)—
 - (i) at the beginning insert—
“the following provisions—
(i) in the case of Companies Act individual accounts,”;
 - (ii) after “etc)” insert—
“, and
(ii) in the case of IAS individual accounts, provisions of any kind,” and
 - (c) omit from “as stated” to the end.
4. In section 221 (duty to keep accounting records)(1), in subsections (1)(b) and (4)—
 - (a) for “any balance sheet and profit and loss account prepared under this Part complies” substitute “any accounts required to be prepared under this Part comply”; and
 - (b) at the end insert “(and, where applicable, of Article 4 of the IAS Regulation)”.
5. In section 222(3)(b) (accounts and returns to be sent to Great Britain)(2)—
 - (a) for “the company’s balance sheet and profit and loss account” substitute “the accounts required to be prepared under this Part”; and
 - (b) at the end insert “(and, where applicable, Article 4 of the IAS Regulation)”.
6. In section 228 (exemption from obligation to prepare group accounts for parent companies included in accounts of larger group)(3), in subsection (2)(b) at the end insert “or in accordance with international accounting standards”.
7. In section 229 (subsidiary undertakings included in the consolidation)—
 - (a) in subsection (1)—
 - (i) at the beginning insert “In the case of Companies Act group accounts,”;
 - (ii) omit “or required”;
 - (b) in each of subsections (2) and (3), after “consolidation” insert “in Companies Act group accounts”;
 - (c) for subsection (5) substitute—

(1) Section 221 was substituted by section 2 of the Companies Act 1989.

(2) Section 222 was substituted by section 2 of the Companies Act 1989.

(3) Section 228 was substituted by section 5(3) of the Companies Act 1989, and amended by regulation 4 of S.I. 1992/3178, by regulation 5(1) of, and paragraph 1 of Schedule 2 to, S.I. 1993/3246, by regulation 4 of S.I. 1996/189 and by section 30 of the Welsh Language Act 1993 (c. 38).

“(5) A parent company is exempt from the requirement to prepare group accounts if under subsection (2) or (3) all of its subsidiary undertakings could be excluded from consolidation in Companies Act group accounts.”

8. In section 230 (treatment of individual profit and loss account where group accounts prepared)(4), in subsection (2) at the beginning insert “Where the company prepares Companies Act individual accounts,”.

9. After section 231 insert—

“Disclosure required in notes to annual accounts: particulars of staff

231A.—(1) The following information with respect to the employees of the company must be given in notes to the company’s annual accounts—

- (a) the average number of persons employed by the company in the financial year, and
- (b) the average number of persons so employed within each category of persons employed by the company.

(2) The average number required by subsection (1)(a) or (b) is determined by dividing the relevant annual number by the number of months in the financial year.

(3) The relevant annual number is determined by ascertaining for each month in the financial year—

- (a) for the purposes of subsection (1)(a), the number of persons employed under contracts of service by the company in that month (whether throughout the month or not);
- (b) for the purposes of subsection (1)(b), the number of persons in the category in question of persons so employed;

and, in either case, adding together all the monthly numbers.

(4) In respect of all persons employed by the company during the financial year who are taken into account in determining the relevant annual number for the purposes of subsection (1)(a) there must also be stated the aggregate amounts respectively of—

- (a) wages and salaries paid or payable in respect of that year to those persons;
- (b) social security costs incurred by the company on their behalf; and
- (c) other pension costs so incurred.

This does not apply in so far as those amounts, or any of them, are stated elsewhere in the company’s accounts.

(5) For the purposes of subsection (1)(b), the categories of person employed by the company are such as the directors may select, having regard to the manner in which the company’s activities are organised.

(6) This section applies in relation to group accounts as if the undertakings included in the consolidation were a single company.

(7) In this section “social security costs” and “pension costs” have the same meaning as in Schedule 4 (see paragraph 94(1) and (2) of that Schedule).”

10. In section 233(5) (criminal penalty for failing to comply with accounting requirements)(5), after “requirements of this Act” insert “(or, where applicable, of Article 4 of the IAS Regulation)”.

(4) Section 230 was substituted by section 5(4) of the Companies Act 1989.

(5) Section 233 was substituted by section 7 of the Companies Act 1989.

11.—(1) In sections 245 to 245C (revision of defective accounts or reports)(**6**), after “requirements of this Act”, wherever occurring, insert “(or, where applicable, of Article 4 of the IAS Regulation)”.

(2) That expression occurs in section 245(1) and (2), in section 245A(1), in section 245B(1), (4) and (5) and in section 245C(1).

12.—(1) Section 246 (special provisions for small companies)(**7**) is amended as follows.

(2) In subsection (2)—

(a) after “for the year” insert “are Companies Act individual accounts and”; and

(b) for “section 226” substitute “section 226A”.

(3) In subsection (5)(c), after “if” insert “they prepare Companies Act individual accounts and”.

13. In section 246A(1) (special provisions for medium-sized companies)(**8**), in subsection (1) at the end insert “and its directors prepare Companies Act individual accounts for that year”.

14. In section 247 (qualification of company as small or medium-sized)(**9**), for subsection (5) substitute—

“(5) The balance sheet total means—

(a) in the case of Companies Act individual accounts—

(i) the aggregate of the amounts shown in the balance sheet under the headings corresponding to items A to D of Format 1 in Part 1 of Schedule 4 or Part 1 of Schedule 8, or

(ii) if Format 2 is adopted, the aggregate of the amounts shown under the general heading “ASSETS”;

(b) in the case of IAS individual accounts, the aggregate of the amounts shown as assets in the balance sheet.”

15. In section 248A(1)(b) (group accounts prepared by small company)(**10**) for “group accounts” substitute “Companies Act group accounts”.

16. In section 249C (report required for the purposes of exemption from audit under section 249A)(**11**), in subsection (6)(a), for “section 226(3)” substitute “section 226A(3)”.

17. In section 255 (special provisions for banking and insurance companies)(**12**), after subsection (4) insert—

“(4A) References to Companies Act individual accounts include accounts prepared in accordance with this section.

(4B) This section does not apply to banking companies and insurance companies that prepare IAS individual accounts.”

(6) Sections 245 to 245C were inserted by section 12 of the Companies Act 1989. Section 245 was amended by regulation 4 of, and paragraph 2 in Part I of Schedule 1 to, S.I. 1994/1935, and by regulation 10 of S.I. 2002/1986. Section 245B was also amended by regulation 10 of S.I. 2002/1986.

(7) Section 246 was substituted by section 13 of the Companies Act 1989, and amended by regulation 2(1) of S.I. 1997/220, by regulation 6(1) of S.I. 1997/570 and by regulation 8(1) of S.I. 2000/1430.

(8) Section 246A was inserted by regulation 3 of S.I. 1997/220.

(9) Section 247 was substituted by section 13(1) of the Companies Act 1989, and amended by regulation 5 of S.I. 1992/2452, by regulation 8 of S.I. 1996/189 and by regulation 7 of S.I. 1997/220.

(10) Section 248A was inserted by regulation 6 of S.I. 1997/220.

(11) Section 249C was inserted by regulation 2 of S.I. 1994/1935, and amended by regulation 7(3) of S.I. 1997/220 and by regulation 8(3) of S.I. 2000/1430.

(12) Section 255 (as substituted by section 18 of the Companies Act 1989) was substituted by regulation 3 of S.I. 1991/2705, and amended by regulation 2 of S.I. 1993/3246.

18.—(1) Section 255A (special provisions for banking and insurance groups)(**13**) is amended as follows.

(2) In subsection (6)(a), for “section 227(5) and (6)” substitute “section 227A(4) and (5)”.

(3) After subsection (6) insert—

“(6A) References to Companies Act group accounts include accounts prepared in accordance with subsections (1) to (3).

(6B) Subsections (1) to (3) and (6) do not apply to parent companies of banking groups or insurance groups that prepare IAS group accounts.”

19. In section 261(2) (notes to the accounts)(**14**), after “any provision of this Act” insert “or international accounting standards”.

20.—(1) Section 262 (minor definitions)(**15**) is amended as follows.

(2) In subsection (1)—

(a) at the appropriate place insert—

““Companies Act accounts” means Companies Act individual accounts or Companies Act group accounts;”;

(b) at the appropriate place insert—

““IAS accounts” means IAS individual accounts or IAS group accounts;”;

(c) at the appropriate place insert—

““IAS Regulation” means EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19th July 2002 on the application of international accounting standards;”(**16**);

(d) at the appropriate place insert—

““international accounting standards” means the international accounting standards, within the meaning of the IAS Regulation, adopted from time to time by the European Commission in accordance with that Regulation;”;

(e) at the appropriate place insert—

““profit and loss account”, in relation to a company that prepares IAS accounts, includes an income statement or other equivalent financial statement required to be prepared by international accounting standards;”;

(f) omit the definition of “true and fair view”.

(3) After subsection (2) insert—

“(2A) References in this Part to accounts giving a “true and fair view” are references—

(a) in the case of Companies Act individual accounts, to the requirement under section 226A that such accounts give a true and fair view;

(b) in the case of Companies Act group accounts, to the requirement under section 227A that such accounts give a true and fair view; and

(c) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.”

(13) Section 255A (as inserted by section 18 of the Companies Act 1989) was substituted by regulation 3 of S.I. [1991/2705](#), and amended by regulation 3 of S.I. [1993/3246](#) and by regulation 15 of S.I. [1996/189](#).

(14) Section 261 was substituted by section 22 of the Companies Act 1989.

(15) Section 262 was substituted by section 22 of the Companies Act 1989, and amended by regulation 7 of S.I. [1992/3178](#), by regulation 12(1) of S.I. [1996/189](#), by regulation 4 of S.I. [1997/2306](#), by regulation 2 of S.I. [2000/2952](#), by article 16(1) of S.I. [2000/3373](#), by regulation 2 of S.I. [2002/765](#) and by regulation 10 of S.I. [2002/1986](#).

(16) Official Journal of 11th September 2002 (O.J.L243).

21.—(1) Section 262A (index of defined expressions)(**17**) is amended as follows.

(2) At the appropriate places insert the following defined expressions—

“Companies Act accounts	Section 262(1)”
“Companies Act group accounts	Sections 227(2) and 255A(6A)”
“Companies Act individual accounts	Sections 226(2) and 255(4A)”
“group accounts	Section 227(1)”
“IAS accounts	Section 262(1)”
“IAS group accounts	Section 227(2) and (3)”
“IAS individual accounts	Section 226(2)”
“IAS Regulation	Section 262(1)”
“international accounting standards	Section 262(1)”.

(3) After the entry for “profit and loss account (includes notes)” insert—

“(in relation to IAS accounts)	Section 262(1)”.
--------------------------------	------------------

(4) For the entry for “true and fair view” substitute—

“true and fair view	Section 262(2A)”.
---------------------	-------------------

22. In section 264(2) (restriction on distribution of assets), after “Schedule 4” insert “that is made in Companies Act accounts and any provision that is made in IAS accounts”.

23. In section 265(2) (other distributions by investment companies)(**18**), at the end insert “that is made in Companies Act accounts and any provision that is made in IAS accounts”.

24. In section 268(2)(aa) (realised profits of insurance company with long term business)(**19**)—

(a) after “balance sheet is” insert—

“(i) in the case of Companies Act individual accounts,”;

(b) at the end insert —

(17) Section 262A was inserted by section 22 of the Companies Act 1989, and amended by regulation 6 of, and paragraph 3 of Schedule 2 to, S.I. 1991/2705, by regulation 5 of, and paragraph 5 of Schedule 2 to, S.I. 1993/3246, by regulation 4(2) of S.I. 1994/233, by regulation 4 of, and paragraph 3 of Schedule 1 to, S.I. 1994/1935, by regulation 12(2) of S.I. 1996/189, by regulation 7 of S.I. 1997/220, by regulation 4(4) of S.I. 1997/2306, by article 16(2) of S.I. 2000/3373 and by regulation 10 of S.I. 2002/1986.

(18) Section 265 was amended by section 212 of, and paragraph 19 of Schedule 16 to, the Financial Services Act 1986, by regulation 2 of S.I. 1999/2770 and by article 17 of S.I. 2001/3649.

(19) Section 268 was amended by regulation 13 of S.I. 1996/189 and by article 18 of S.I. 2001/3649.

“and

(ii) in the case of IAS individual accounts, to that part of the balance sheet which represents accumulated profit or loss,”.

25.—(1) Section 269(2) (treatment of development costs)(**20**) is amended as follows.

(2) Omit “and” at the end of paragraph (a).

(3) In paragraph (b)—

(a) at the beginning insert—

“it is stated—

(i) in the case of Companies Act individual accounts, in”;

(b) for “states” substitute—

“, or

(ii) in the case of IAS individual accounts, in any note to the accounts,”;

(c) for “and explains” substitute—

“, and

(c) the note explains”.

26. In section 270(2) (distribution to be justified by reference to company’s accounts), in paragraph (b)—

(a) at the beginning insert—

“the following provisions—

(i) in the case of Companies Act individual accounts,”;

(b) after “etc)” insert—

“, and

(ii) in the case of IAS individual accounts , provisions of any kind”.

27. In section 272(3) (interim accounts must be properly prepared)(**21**) after “that section” insert “and sections 226A and 226B”.

28. In section 275 (treatment of assets in the relevant accounts), for subsection (1) substitute—

“(1) For purposes of sections 263 and 264, the following are treated as realised losses—

(a) in the case of Companies Act individual accounts, provisions of any kind mentioned in paragraphs 88 and 89 of Schedule 4 (other than revaluation provisions), and

(b) in the case of IAS individual accounts, provisions of any kind (other than revaluation provisions).

(1A) In subsection (1), a revaluation provision means a provision in respect of a diminution in value of a fixed asset appearing on a revaluation of all the fixed assets of the company, or of all of its fixed assets other than goodwill.”

(20) Section 269 was amended by regulation 7 of S.I. [1997/220](#).

(21) Section 272 was amended by section 23 of, and paragraphs 5 and 6 of Schedule 10 to, the Companies Act 1989, and by section 30 of the Welsh Language Act [1993 \(c. 38\)](#).

29. In section 742(1) (expressions used in connection with accounts)(**22**) insert at the appropriate place “ “Companies Act accounts” ”, “ “Companies Act individual accounts” ”, “ “IAS accounts” ” and “ “IAS individual accounts” ”.

30.—(1) Section 744A (index of defined expressions)(**23**) is amended as follows.

(2) At the appropriate places insert the following defined expressions—

“Companies Act accounts	Sections 262(1) and 742(1)”
“Companies Act individual accounts	Sections 226(2), 255(4A) and 742(1)”
“IAS accounts	Sections 262(1) and 742(1)”
“IAS individual accounts	Sections 226(2) and 742(1)”.

(3) In the definition of “profit and loss account”, in the second column, for “262(1)” substitute “262(1) and (2)”.

31.—(1) Schedule 4 (form and content of company accounts)(**24**) is amended as follows.

(2) In Part 3 (notes to the accounts), omit paragraph 56.

(3) In Part 5 (special provisions where the company is an investment company), in paragraph 72(2) after “paragraph 89” insert “that is made in Companies Act accounts and any provision that is made in IAS accounts”.

(4) In Part 7 (interpretation) in paragraph 94(3) for “paragraph 56(1)(a)” substitute “section 231A(1)(a)”.

32. In paragraph 25 of Schedule 6 (disclosure of information: emoluments and other benefits of directors and others)(**25**), after “Schedule 4” insert “that is made in Companies Act accounts and any provision that is made in IAS accounts”.

33. In Schedule 7, in paragraph 12(5)(c) (identifying amounts owed to trade creditors for purposes of directors' report)(**26**) after “Schedule 9 or 9A” insert “or the company’s accounts are IAS accounts”.

34. In Part 1 of Schedule 9 (form and content of banking companies' accounts)(**27**)—

(a) omit paragraph 77, and

(b) in paragraph 87(c) (interpretation) for “paragraph 77(1)(a)” substitute “section 231A(1)(a)”.

(22) Section 742 was substituted by section 23 of, and paragraph 15 of Schedule 10 to, the Companies Act 1989 and amended by article 28 of S.I. 2000/3373.

(23) Section 744A was inserted by section 145 of, and paragraph 20 of Schedule 19 to, the Companies Act 1989 and amended by section 79 of, and paragraph 4 of Schedule 5 to, the Criminal Justice Act 1993, regulation 4 of S.I. 1997/2306, article 30 of S.I. 2000/3373, article 31 of S.I. 2001/3649 and by regulation 4 of, and paragraph 29 of the Schedule to, S.I. 2003/1116.

(24) Schedule 4 was amended by section 4(2) of, and Schedule 1 to, the Companies Act 1989.

(25) Paragraph 25 and its internal cross-references were renumbered by section 6 of, and paragraph 4 of Schedule 4 to, the Companies Act 1989.

(26) Paragraph 12 was inserted by regulation 14 of S.I. 1996/189 and substituted by regulation 2 of S.I. 1997/571.

(27) Parts I to III of Schedule 9 were inserted before a re-numbered Schedule 9A by regulation 5 of, and Schedule 1 to, S.I. 1991/2705. Part IV of Schedule 9 was substituted by section 18(3) and (4) of and Part IV of Schedule 7 to, the Companies Act 1989.

- 35.** In Part 1 of Schedule 9A (form and content of insurance companies' accounts)~~(28)~~—
- (a) omit paragraph 79, and
 - (b) in paragraph 86(c) (interpretation) for “paragraph 79(1)(a) above” substitute “section 231A(1)(a)”.

36.—(1) Schedule 11 (modifications of Part 8 for banking and insurance companies)~~(29)~~ is amended as follows.

- (2) In paragraph 5, for “section 226” substitute “sections 226, 226A and 226B”.
- (3) At the beginning of paragraph 9 insert “In the case of Companies Act accounts,”.
- (4) In paragraph 10, for “section 226” substitute “sections 226, 226A and 226B”.

SCHEDULE 2

Regulation 14(1)

FORM AND CONTENT OF COMPANY ACCOUNTS

1. Schedule 4 to the 1985 Act (form and content of company accounts) is amended as follows.
2. Omit sub-paragraph (7) of paragraph 3 (dividends in profit and loss account to be shown as separate items)~~(30)~~.
3. After paragraph 5 insert—

“5A. 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.”
- 4.—(1) In the Balance Sheet Formats, for “provisions for liabilities and charges”, wherever occurring, substitute “provisions for liabilities”.
 - (2) That expression occurs—
 - (a) in Balance Sheet Format 1, in Item I;
 - (b) in Balance Sheet Format 2, under the heading “LIABILITIES”, in Item B.
 5. In paragraph 12(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.
- 6.—(1) Part 2 (accounting principles and rules) is amended as follows.
 - (2) In paragraph 16 (general requirement to use historical cost accounting), for “Subject to section C” substitute “Subject to sections C and D”.
 - (3) After section C insert—

~~(28)~~ Parts I and II of Schedule 9 to the Companies Act 1985 were formed into a new Schedule 9A by regulation 5(1) of S.I. [1991/2705](#). A new Schedule 9A was substituted by regulation 4 of, and Schedule 1 to, S.I. [1993/3246](#).

~~(29)~~ Schedule 11 was amended by section 23 of, and paragraph 21 of Schedule 10 to, the Companies Act 1989, by regulation 7 of, and Schedule 3 to, S.I. [1991/2705](#), and by regulation 5 of, and paragraph 8 of Schedule 2 to, S.I. [1993/3246](#) and by regulation 14 of, and Schedule 6 to, S.I. [1996/189](#).

~~(30)~~ Paragraph 3(7) was amended by regulation 14(1) of, and paragraphs 1 and 2 of Schedule 1 to, S.I. [1996/189](#).

“SECTION D

FAIR VALUE ACCOUNTING

Inclusion of financial instruments at fair value

34A.—(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) 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 34B, 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

34B.—(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

34C. 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

34D.—(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

34E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 34A or 34C or an asset is valued in accordance with paragraph 34D.

(2) Notwithstanding paragraph 12 of this Schedule, and subject to sub-paragraphs (3) and (4) below, 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

34F.—(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 34E(3) or (4).

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

7.—(1) Part 3 (notes to the accounts) is amended as follows.

(2) After paragraph 35 insert—

“Reserves and dividends

35A. There must be stated—

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,

- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
 - (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
 - (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under paragraph (b) or (c).”
- (3) After paragraph 45(31) insert–

“Information about fair value of assets and liabilities

45A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 34A or 34C.

(2) There must be stated–

- (a) where the fair value of the instruments has been determined in accordance with paragraph 34B(4), the significant assumptions underlying the valuation models and techniques used,
- (b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value–
 - (i) included in the profit and loss account, or
 - (ii) credited to or (as the case may be) debited from the fair value reserve, in respect of those instruments, and
- (c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

(3) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form–

- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) the amount transferred to or from the reserve during that year; and
- (c) the source and application respectively of the amounts so transferred.

45B. Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives–

- (a) the fair value of the derivatives in that class, if such a value can be determined in accordance with paragraph 34B, and
- (b) the extent and nature of the derivatives.

45C.—(1) Sub-paragraph (2) applies if–

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 34A,
- (b) the amount at which those assets are included under any item in the company’s accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 19(1) of this Schedule.

(2) There must be stated–

(31) Paragraph 45 was amended by regulation 14(1) of, and paragraphs 1 and 7 of Schedule 1 to, S.I. [1996/189](#).

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

45D.—(1) This paragraph applies where the amounts to be included in a company's accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 34D.

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

(3) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts—

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3) above, references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”

8. In paragraph 46(1) (transfers to and from reserves and provisions)—

- (a) in paragraph (b), for “provisions for liabilities and charges” substitute “provisions for liabilities”;
- (b) in paragraph (c), for “provision for liabilities and charges” substitute “provision for liabilities”.

9. In paragraph 72(2) (distributions by investment companies), for “provision for liabilities or charges” substitute “provision for liabilities”.

10. After paragraph 76 (interpretation) insert—

“Financial instruments

76A. References to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or in some other financial instrument, except when such contracts—

- (a) were entered into for the purpose of, and continue to meet, the company's expected purchase, sale or usage requirements,
- (b) were designated for such purpose at their inception, and

(c) are expected to be settled by delivery of the commodity.

76B.—(1) The expressions listed in sub-paragraph (2) have the same meaning as they have in Council Directive [78/660/EEC](#) on the annual accounts of certain types of companies, as amended.**(32)**

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.

11. After paragraph 82 insert—

“Investment property

82A. “Investment property” means land held to earn rent or for capital appreciation.”

12. In paragraph 89 (interpretation of references to provisions for liabilities or charges)—

- (a) for “provisions for liabilities or charges” substitute “provisions for liabilities”, and
- (b) for “or loss” substitute “the nature of which is clearly defined and” .

SCHEDULE 3

Regulation 14(2)

FORM AND CONTENT OF ACCOUNTS PREPARED BY SMALL COMPANIES

1. Schedule 8 to the 1985 Act (form and content of small company accounts)**(33)** is amended as follows.

2. Omit sub-paragraph (7) of paragraph 3 (dividends in profit and loss account to be shown as separate items).

3. After paragraph 5 insert—

“5A. 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.”

4.—(1) In the Balance Sheet Formats, for “provisions for liabilities and charges”, wherever occurring, substitute “provisions for liabilities”.

(2) That expression occurs—

- (a) in Balance Sheet Format 1, in Item I;
- (b) in Balance Sheet Format 2, under the heading “LIABILITIES”, in Item B.

5. In paragraph 12(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.

6.—(1) Part 2 (accounting principles and rules) is amended as follows.

(32) O.J. L222 of 14.8.1978, page 11, as amended in particular by Directive [2001/65/EEC](#) (O.J. L238 of 27.12.2001, page 28).

(33) Schedule 8 was substituted by regulation 2(2) of, and Schedule 1 to, S.I. [1997/220](#).

(2) In paragraph 16 (general requirement to use historical cost accounting), for “Subject to section C” substitute “Subject to sections C and D”.

(3) After section C insert—

“SECTION D

FAIR VALUE ACCOUNTING

Inclusion of financial instruments at fair value

34A.—(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) 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 34B, 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

34B.—(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

34C. 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

34D.—(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

34E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 34A or 34C or an asset is valued in accordance with paragraph 34D.

(2) Notwithstanding paragraph 12 of this Schedule, and subject to sub-paragraphs (3) and (4) below, 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

34F.—(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 34E(3) or (4).

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

7.—(1) Part 3 (notes to the accounts) is amended as follows.

(2) After paragraph 35 insert—

“Reserves and dividends

35A. There must be stated–

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,
- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
- (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
- (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under paragraph (b) or (c).”

(3) After paragraph 42 insert–

“Information about fair value of assets and liabilities

42A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 34A or 34C.

(2) There must be stated–

- (a) where the fair value of the instruments has been determined in accordance with paragraph 34B(4), the significant assumptions underlying the valuation models and techniques used,
- (b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value–
 - (i) included in the profit and loss account, and
 - (ii) credited to or (as the case may be) debited from the fair value reserve,in respect of those instruments, and
- (c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

(3) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form–

- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) the amount transferred to or from the reserve during that year; and
- (c) the source and application respectively of the amounts so transferred.

42B.—(1) Sub-paragraph (2) applies if–

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 34A,
- (b) the amount at which those assets are included under any item in the company’s accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 19(1) of this Schedule.

(2) There must be stated–

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company’s accounts,

- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

42C.—(1) This paragraph applies where the amounts to be included in a company’s accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 34D.

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

(3) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts—

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3) above, references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”

8. In paragraph 43(1)(transfers to and from reserves and provisions)—

- (a) in paragraph (b), for “provisions for liabilities and charges” substitute “provisions for liabilities”;
- (b) in paragraph (c), for “provision for liabilities and charges” substitute “provision for liabilities”.

9. After paragraph 52 (interpretation) insert—

“Financial instruments

52A. References to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or in some other financial instrument, except when such contracts—

- (a) were entered into for the purpose of, and continue to meet, the company’s expected purchase, sale or usage requirements,
- (b) were designated for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

52B.—(1) The expressions listed in sub-paragraph (2) have the same meaning as they have in Council Directive 78/660/EEC on the annual accounts of certain types of companies, as amended.**(34)**

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.

10. After paragraph 53 insert—

“Investment property

53A. “Investment property” means land held to earn rent or for capital appreciation.”

11. In paragraph 58 (interpretation of references to provisions for liabilities or charges)—

- (a) for “provisions for liabilities or charges” substitute “provisions for liabilities”, and
- (b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 4

Regulation 14(3)

FORM AND CONTENT OF ABBREVIATED ACCOUNTS
OF SMALL COMPANIES DELIVERED TO REGISTRAR

1. Schedule 8A to the 1985 Act (form and content of small company accounts delivered to registrar)**(35)** is amended as follows.

2.—(1) In the Balance Sheet Formats, for “provisions for liabilities and charges”, wherever occurring, substitute “provisions for liabilities”.

(2) That expression occurs—

- (a) in Balance Sheet Format 1, in Item I; and
- (b) in Balance Sheet Format 2, under the heading “LIABILITIES”, in Item B.

3. After paragraph 7 (notes to be included in small company accounts delivered to registrar of companies) insert—

“Financial fixed assets

7A.—(1) Sub-paragraph (2) applies if—

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 34A of Schedule 8,
- (b) the amount at which those assets are included under any item in the company’s accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 19(1) of that Schedule.

(2) There must be stated—

(34) O.J. L222 of 14.8.1978, page 11, as amended in particular by Directive 2001/65/EEC (O.J. L238 of 27.12.2001, page 28).

(35) Schedule 8A was inserted by regulation 2(3) of, and Schedule 2 to, S.I. 1997/220.

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered."

SCHEDULE 5

Regulation 14(4)

FORM AND CONTENT OF ACCOUNTS OF BANKING COMPANIES AND GROUPS

1. Part 1 of Schedule 9 to the 1985 Act (form and content of accounts of banking companies and groups) is amended as follows.

2. Omit paragraph 8 (dividends in profit and loss account to be shown as separate items)(36).

3. After paragraph 8 insert—

“**8A.** 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.”

4. In the Balance Sheet Format, under the heading “LIABILITIES”, for “Provisions for liabilities and charges” substitute “Provisions for liabilities”.

5. In paragraph 19(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.

6. In paragraph 23 (preliminary paragraph on historical cost accounting rules) for “paragraphs 39 to 44” substitute “paragraphs 39 to 44F”.

7. After paragraph 44 insert—

“FAIR VALUE ACCOUNTING

Inclusion of financial instruments at fair value

44A.—(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) 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;

(36) Paragraph 8 was amended by regulation 14(6) of, and paragraphs 1 and 2 of Schedule 4 to, S.I. 1996/189.

- (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 44B, 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

44B.—(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

44C. 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

44D.—(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

44E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 44A or 44C or an asset is valued in accordance with paragraph 44D.

(2) Notwithstanding paragraph 19 of this Schedule, and subject to sub-paragraphs (3) and (4) below, 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

44F.—(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 44E(3) or (4).

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

8.—(1) Chapter 3 (notes to the accounts) is amended as follows.

(2) After paragraph 50 insert—

"Reserves and dividends

50A. There must be stated—

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,
- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
- (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
- (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under paragraph (b) or (c)."

(3) After paragraph 58 insert—

"Information about fair value of assets and liabilities

58A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 44A or 44C.

(2) There must be stated—

- (a) where the fair value of the instruments has been determined in accordance with paragraph 44B(4), the significant assumptions underlying the valuation models and techniques used,

- (b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value—
 - (i) included in the profit and loss account, and
 - (ii) credited to or (as the case may be) debited from the fair value reserve, in respect of those instruments, and
 - (c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.
- (3) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form—
- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
 - (b) the amount transferred to or from the reserve during that year; and
 - (c) the source and application respectively of the amounts so transferred.

58B. Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives—

- (a) the fair value of the derivatives in that class, if such a value can be determined in accordance with paragraph 44B, and
- (b) the extent and nature of the derivatives.

58C.—(1) Sub-paragraph (2) applies if—

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 44A,
- (b) the amount at which those assets are included under any item in the company's accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 26(1) of this Part of this Schedule.

(2) There must be stated—

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

58D.—(1) This paragraph applies where the amounts to be included in a company's accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 44D.

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

(3) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts—

- (a) the comparable amounts determined according to the historical cost accounting rules; or
 - (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.
- (4) In sub-paragraph (3) above, references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”
9. In paragraph 59(1) (transfers to and from reserves and provisions)—
- (a) in paragraph (b), for “provisions for liabilities and charges” substitute “provisions for liabilities”, and
 - (b) in paragraph (c), for “provision for liabilities and charges” substitute “provision for liabilities”.
10. In paragraph 82 (general interpretation), at the appropriate place, insert—
- ““Investment property” means land held to earn rent or for capital appreciation.”
11. After paragraph 82 (general interpretation) insert—

“Financial instruments

82A. For the purposes of this Part of this Schedule, references to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or in some other financial instrument, except when such contracts—

- (a) were entered into for the purpose of, and continue to meet, the company’s expected purchase, sale or usage requirements,
- (b) were designated for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

82B.—(1) The expressions listed in sub-paragraph (2) have the same meaning in paragraphs 44A to 44F, 58A to 58C and 82A of this Part of this Schedule as they have in Council Directives [78/660/EEC](#) on the annual accounts of certain types of companies and [86/635/EEC](#) on the annual accounts and consolidated accounts of banks and other financial institutions, as amended.⁽³⁷⁾

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.”

12. In paragraph 85(c) (interpretation of references to provisions for liabilities or charges)—
- (a) for “provisions for liabilities or charges” substitute “provisions for liabilities”, and

(37) O.J. L222 of 14.8.1978, page 11, and O.J. L372 of 31.12.1986, page 1, as amended in particular by Directive [2001/65/EEC](#) (O.J. L238 of 27.12.2001, page 28).

- (b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 6

Regulation 14(5)

FORM AND CONTENT OF ACCOUNTS OF INSURANCE COMPANIES AND GROUPS

1. Part 1 of Schedule 9A to the 1985 Act (form and content of accounts of insurance companies and groups) is amended as follows.

2. Omit paragraph 5 (dividends in profit and loss account to be shown as separate items)(38).

3. After paragraph 6 insert—

“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.”

4. In the Balance Sheet Format, under the heading “LIABILITIES”, for “Provisions for other risks and charges” substitute “Provisions for other risks”.

5. In paragraph 16(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.

6.—(1) After paragraph 19 insert –

“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.”

(2) Omit paragraph 20 (preliminary paragraph on current value accounting rules).

7.—(1) In Chapter 2 (accounting principles and rules), after paragraph 29 insert—

(38) Paragraph 5 was amended by regulation 14(7) of, and paragraphs 1 and 2 of Schedule 5 to, S.I. 1996/189.

“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 in this Part of this Schedule, and subject to subparagraphs (3) and (4) below, 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 or debited to the fair value reserve shall be disclosed in a note to the accounts.”

(2) Omit paragraph 30 (preliminary paragraph on historical cost accounting rules).

8. After paragraph 57 insert—

“Reserves and dividends

57A. There must be stated—

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,

- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
- (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
- (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under paragraph (b) or (c).”

9. After paragraph 65 (information supplementing the balance sheet)(39) insert–

“Information about fair value of assets and liabilities

65A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 29A or 29C.

(2) The items affected and the basis of valuation adopted in determining the amounts of the financial instruments must be disclosed.

(3) The purchase price of the financial instruments must be disclosed.

(4) There must be stated–

(a) where the fair value of the instruments has been determined in accordance with paragraph 29B(4), the significant assumptions underlying the valuation models and techniques used,

(b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value–

(i) included in the profit and loss account, or

(ii) credited to or (as the case may be) debited from the fair value reserve, in respect of those instruments, and

(c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

(5) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form–

(a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;

(b) the amount transferred to or from the reserve during that year; and

(c) the source and application respectively of the amounts so transferred.

65B Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives–

(a) the fair value of the derivatives in that class, if such a value can be determined in accordance with paragraph 29B, and

(b) the extent and nature of the derivatives.

65C.—(1) Sub-paragraph (2) applies if–

(a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 29A,

(b) the amount at which those assets are included under any item in the company’s accounts is in excess of their fair value, and

(39) Paragraph 65 was amended by regulation 14(7) of, and paragraphs 1 and 9 of Schedule 5 to, S.I. 1996/189.

- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 33(2) of this Part of this Schedule.
- (2) There must be stated—
 - (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company’s accounts,
 - (b) the fair value of those assets or groupings, and
 - (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

65D.—(1) This paragraph applies where the amounts to be included in a company’s accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 29D.

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

(3) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts—

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3) above, references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”

10. In paragraph 66(1)(b) and (c) (transfers to or from provisions)(**40**), for “provisions for other risks and charges” substitute “provisions for other risks”.

11. In paragraph 81 (general interpretation)(**41**), at the appropriate place, insert—

““investment property” means land held to earn rent or for capital appreciation.”

12. After paragraph 81 (general interpretation) insert—

“Financial instruments

81A For the purposes of this Part of this Schedule, references to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or some other financial instrument, except when such contracts—

(40) Paragraph 66 was amended by regulation 14 of, and paragraphs 1 and 10 of Schedule 5 to, S.I. 1996/189.

(41) Paragraph 81 was amended by article 36 of S.I. 2001/3649.

- (a) were entered into for the purpose of, and continue to meet, the company's expected purchase, sale or usage requirements,
- (b) were designated for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

81B.—(1) The expressions listed in sub-paragraph (2) have the same meaning in Section BA of Chapter 2 and paragraphs 65A to 65C and 81A of this Part of this Schedule as they have in Council Directives [78/660/EEC](#) on the annual accounts of certain types of companies and [91/674/EEC](#) on the annual accounts and consolidated accounts of insurance undertakings, as amended.**(42)**

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.

13. In paragraph 84(c) (interpretation of references to provisions for risks and charges)**(43)**—

- (a) for “provisions for other risks and charges” substitute “provisions for other risks”, and
- (b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 7

Regulation 15

MINOR AND CONSEQUENTIAL AMENDMENTS

PART 1

AMENDMENTS OF THE COMPANIES ACT 1985

1. The following minor and consequential amendments to the 1985 Act have effect.
2. In section 152(2) (definition of “net assets” for Chapter 6 of Part 5), for “provision for liabilities or charges” substitute “provision for liabilities”.
3. In section 154(2)(b) (definition of “liabilities” for the purposes of the “net asset” test) for “or loss” substitute “the nature of which is clearly defined and”.
- 4.—(1) Section 228 (exemption for parent companies included in accounts of larger group) is amended as follows.
 - (2) In subsections (1) and (2)(a) for “a member State of the European Economic Community” substitute “an EEA State”.
 - (3) In subsection (3), omit from “listed” to the end, and substitute “admitted to trading on a regulated market of any EEA State within the meaning of Council Directive [93/22/EEC](#) on investment services in the securities field”.

(42) O.J. L222 of 14.8.1978, page 11, and O.J. L374 of 31.12.1991, page 7, as amended in particular by article 4 of Directive [2003/51/EEC](#) of the European Parliament and of the Council (O.J. L178 of 17.7.2003, page 16).

(43) Paragraph 84(c) was amended by regulation 14(7) of, and paragraphs 1 and 18 of Schedule 5 to, S.I. [1996/189](#).

5. In section 231(5)(b) (disclosure required in notes to accounts of undertakings excluded from consolidation)(44), omit “or (4)”.
6. Omit section 243 (accounts of subsidiary undertakings to be appended in certain cases)(45).
7. In section 260 (definition of “participating interest”)(46), omit subsection (5).
8. In section 264(2) (restriction on distribution of assets), for “provision for liabilities or charges” substitute “provision for liabilities”.
9. In section 265(2) (other distributions by investment companies), for “provision for liabilities or charges” substitute “provision for liabilities”.
10. In Schedule 4A (interests in subsidiary undertakings excluded from consolidation)(47), omit paragraph 18.
11. In paragraph 25 of Schedule 6 (disclosure of information: emoluments and other benefits of directors and others), for “provisions for liabilities or charges” substitute “provisions for liabilities”.
12. In Part 2 of Schedule 9 (undertakings to be included in consolidation), omit paragraph 1.

PART 2

AMENDMENTS OF OTHER ENACTMENTS

13. In section 101A(6)(a) of the Government of Wales Act 1998 (whole of Government of Wales accounts) (48), after “(accounting standards)” insert “or to international accounting standards (as defined in section 262 of that Act)”.
14. In the Government Resources and Accounts Act 2000(49), in—
 - (a) section 5(4)(a) (accounts of government departments), and
 - (b) section 9(5)(a) (whole of government accounts),after “(accounting standards)” insert “ or to the international accounting standards, within the meaning of EC Regulation No.1606/2002 of the European Parliament and of the Council of 19th July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation”.
15. The amendments in this Part of this Schedule do not extend to Northern Ireland.

(44) Section 231 was substituted by section 6(1) of the Companies Act 1989, and subsection (5) was amended by regulation 15 of S.I. 1996/189.

(45) Section 243 was substituted by section 11 of the Companies Act 1989, and amended by regulation 2 of S.I. 1992/1083, and sections 30 and 35 of, and Schedule 2 to, the Welsh Language Act 1993.

(46) Section 260 was substituted by section 22 of the Companies Act 1989, and amended by regulation 5(1) of, and paragraph 4 of Schedule 2 to, S.I. 1993/3246, and by regulation 7(5) of S.I. 1997/220.

(47) Schedule 4A was inserted by section 5(2) of, and Schedule 2 to, the Companies Act 1989.

(48) 1998 c. 38. Section 101A was inserted by paragraph 24 of Schedule 1 to the Government Resources and Accounts Act 2000.

(49) 2000 c. 20.