
DRAFT STATUTORY INSTRUMENTS

2004 No.

The Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004

PART 1

General

Citation, commencement and interpretation

1.—(1) This Order may be cited as the Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004.

(2) This Order comes into force on the day after the day on which it is made and has effect as respects building societies' financial years which begin on or after 1st January 2005 (the “commencement date”).

(3) In this Order “the 1986 Act” means the Building Societies Act 1986.

PART 2

Accounts prepared in accordance with international accounting standards

Preparation of individual and group accounts in accordance with international accounting standards

2. For sections 72 and 73 of the 1986 Act(1) substitute—

“72A Duty to prepare individual accounts

(1) The directors of every building society shall prepare accounts for the society for each of its financial years.

Those accounts are referred to in this Part as the society’s “individual accounts”.

(2) A society’s individual accounts may be prepared—

- (a) in accordance with section 72B (“Building Societies Act individual accounts”), or
- (b) in accordance with international accounting standards (“IAS individual accounts”).

This subsection is subject to the following provisions of this section and section 72I (consistency of accounts).

(3) After the first financial year in which the directors of a building society prepare IAS individual accounts (“the first IAS year”), all subsequent individual accounts of the society

(1) Sections 72 and 73 were amended by S.I.1991/1729, S.I. 1999/248 and S.I. 2001/2617. Section 73 was also amended by section 43 of the Building Societies Act 1997.

must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(4) There is a relevant change of circumstance if, at any time during or after the first IAS year, the society ceases to have any securities admitted to trading on a regulated market.

(5) If, having changed to preparing Building Societies Act individual accounts following a relevant change of circumstance, the directors again prepare IAS individual accounts for the society, subsections (3) and (4) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

72B Building Societies Act individual accounts

(1) Building Societies Act individual accounts must comprise—

- (a) a balance sheet as at the last day of the financial year, and
- (b) an income and expenditure account.

(2) The balance sheet must give a true and fair view of the state of affairs of the society as at the end of the financial year; and the income and expenditure account must give a true and fair view of the income and expenditure of the society for the financial year.

(3) Building Societies Act individual accounts must comply with the requirements of regulations made under section 72C as to the form and content of the balance sheet and income and expenditure account and additional information to be provided by way of notes to the accounts or otherwise.

(4) Where compliance with the provisions of those regulations, and the other provisions of this Act as to the matters to be included in a society's individual accounts or in notes to those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

(6) Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(7) The Treasury may by regulations—

- (a) add to the classes of documents to be comprised in a society's Building Societies Act individual accounts under subsection (1);
- (b) make provision as to the matters to be included in any document so added;
- (c) modify the requirements of this Part as to the matters to be stated in any document comprised in the society's Building Societies Act individual accounts;
- (d) reduce the classes of documents to be comprised in a society's Building Societies Act individual accounts.

(8) Regulations under subsection (7)—

- (a) may make different provision for different descriptions of society, and
- (b) may include incidental and supplementary provisions.

(9) The power to make regulations under subsection (7) is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

72C Form and contents of Building Societies Act individual accounts

(1) The Treasury shall by regulations make provision with respect to the form and contents of Building Societies Act individual accounts.

(2) The Treasury may by regulations make provision with respect to additional information to be contained in Building Societies Act individual accounts, whether in the form of notes or otherwise.

(3) Without prejudice to the generality of subsections (1) and (2), the regulations may—

- (a) prescribe accounting principles and rules;
- (b) require corresponding information for a preceding financial year;
- (c) make different provision for different descriptions of society.

(4) The power to make regulations under this section is exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

72D IAS individual accounts

72D Where the directors of a building society prepare IAS individual accounts, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

72E Duty to prepare group accounts

(1) If at the end of a financial year a building society has subsidiary undertakings, the directors, as well as preparing individual accounts for the year, shall prepare accounts for the year for the society and those undertakings taken as a whole.

Those accounts are referred to in this Part as the society's "group accounts".

(2) The group accounts of certain societies are required by Article 4 of the IAS Regulation to be prepared in accordance with international accounting standards ("IAS group accounts").

(3) The group accounts of other societies may be prepared—

- (a) in accordance with section 72F ("Building Societies Act group accounts"), or
- (b) in accordance with international accounting standards ("IAS group accounts").

This subsection is subject to the following provisions of this section.

(4) After the first financial year in which the directors of a building society prepare IAS group accounts ("the first IAS year"), all subsequent group accounts of the society must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(5) There is a relevant change of circumstance if, at any time during or after the first IAS year, the society ceases to have any securities admitted to trading on a regulated market.

(6) If, having changed to preparing Building Societies Act group accounts following a relevant change of circumstance, the directors again prepare IAS group accounts for the society, subsection (4) and (5) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

72F Building Societies Act group accounts

(1) Building Societies Act group accounts must comprise—

- (a) a balance sheet dealing with the state of affairs of the building society and its subsidiary undertakings, and
- (b) an income and expenditure account showing the income and expenditure for the society and its subsidiary undertakings.

(2) Building Societies Act group accounts must give a true and fair view of the state of affairs as at the end of the financial year, and the income and expenditure for the financial year of the society and the subsidiary undertakings included in the group accounts as a whole, so far as concerns members of the society.

(3) Building Societies Act group accounts must comply with the requirements of regulations made under section 72G as to the form and content of the group accounts and additional information to be provided by way of notes to the accounts or otherwise.

(4) Where compliance with the provisions of those regulations, and the other provisions of this Act as to the matters to be included in a society's group accounts or in notes to those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

(6) Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(7) The Treasury may by regulations—

- (a) add to the classes of documents to be comprised in a society's Building Societies Act group accounts under subsection (1);
- (b) make provision as to the matters to be included in any document so added;
- (c) modify the requirements of this Part as to the matters to be stated in any document comprised in the society's Building Societies Act group accounts; and
- (d) reduce the classes of documents to be comprised in a society's Building Societies Act group accounts.

(8) Regulations under subsection (7)—

- (a) may make different provision for different descriptions of society, and
- (b) may include incidental and supplementary provisions.

(9) The power to make regulations under subsection (7) is exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

72G Form and contents of Building Societies Act group accounts

(1) The Treasury shall by regulations make provision with respect to the form and contents of Building Societies Act group accounts.

(2) The Treasury may by regulations make provision with respect to additional information to be contained in Building Societies Act group accounts, whether in the form of notes or otherwise.

(3) Without prejudice to the generality of subsections (1) and (2), the regulations may—

- (a) prescribe accounting principles and rules;
- (b) require corresponding information for a preceding financial year;
- (c) make different provision for different descriptions of society;
- (d) permit group accounts to be prepared in other than consolidated form.

(4) The power to make regulations under this section is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

72H IAS group accounts

72H Where the directors of a building society prepare IAS group accounts, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

72I Consistency of accounts

(1) The directors of a building society that prepares group accounts must secure that the individual accounts of—

- (a) the building society, and
- (b) each of its subsidiary undertakings,

are all prepared using the same financial reporting framework, except to the extent that in their opinion there are good reasons for not doing so.

(2) Subsection (1) only applies to accounts of subsidiary undertakings which are required to be prepared under Part 7 of the Companies Act 1985(2).

(3) Subsection (1) does not require accounts of undertakings that are charities to be prepared using the same financial reporting framework as accounts of undertakings which are not charities.

(4) Subsection (1)(a) does not apply where the directors of a building society prepare IAS group accounts and IAS individual accounts.

(5) The directors of a society which has subsidiary undertakings must secure that, except where in their opinion there are good reasons against it, the financial year of each of its subsidiary undertakings coincides with the society's own financial year.”.

PART 3

Other modifications of provisions relating to accounts, directors' reports and auditors' reports

Duty to prepare directors' report

3.—(1) Section 75 of the 1986 Act (directors' report) is amended as follows.

(2) In subsection (1) for paragraph (a) substitute—

“(a) a fair review of the business of the society and its connected undertakings (if any), complying with section 75A,

(aa) a description of the principal risks and uncertainties facing the society and its connected undertakings (if any),”

(3) After subsection (1A)(3) insert—

(2) 1985 c. 6, Part 7 is amended by the Companies Act 1989 (1989 c. 40), S.I. 1991/2705, S.I. 1993/ 3246, S.I. 1994/1935, S.I. 1997/220 and S.I. 2002/1986.

(3) Inserted by the Building Societies Act 1997, section 43, Schedule 7, paragraph 32(2).

“(1B) If the building society has subsidiary undertakings, the report may, where appropriate, give greater emphasis to those matters which are significant to the society and its subsidiary undertakings taken as a whole.”.

(4) Omit subsection (2).

Business review

4. After section 75 of the 1986 Act insert—

“Business review

75A.—(1) The review required for the purposes of section 75(1) is a balanced and comprehensive analysis of—

- (a) the development and performance of the business of the building society and its connected undertakings (if any) during the financial year, and
- (b) the position of the building society and its connected undertakings (if any) at the end of that year,

consistent with the size and complexity of the business.

(2) The review must, to the extent necessary for an understanding of the development, performance or position of the business of the society and its connected undertakings (if any), include—

- (a) analysis using financial key performance indicators, and
- (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

(3) The review must, where appropriate, include references to and additional explanations of amounts included in the annual accounts of the society.

(4) In this section “key performance indicators” means factors by reference to which the development, performance or position of the business of the society and any connected undertakings it has can be measured most effectively.”.

Content of auditors' report

5.—(1) Section 78 of the 1986 Act (auditors' report) is amended as follows.

(2) For subsections (4) and (5) substitute—

“(3A) The auditors' report must include—

- (a) an introduction identifying the annual accounts that are the subject of the audit and the financial reporting framework that has been applied in their preparation;
- (b) a description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted.

(3B) The report must state clearly whether in the auditors' opinion the annual accounts have been properly prepared in accordance with the requirements of this Act (and, where applicable, Article 4 of the IAS Regulation).

(4) The report must state in particular whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework—

- (a) in the case of an individual balance sheet, of the state of affairs of the society as at the end of the financial year,
- (b) in the case of an individual income and expenditure account, of the income and expenditure of the society for the financial year,

- (c) in the case of group accounts, of the state of affairs as at the end of the financial year and the income and expenditure for the financial year of the society and the subsidiary undertakings dealt with in the group accounts, so far as concerns members of the society.
- (4A) The auditors' report—
 - (a) must be either unqualified or qualified, and
 - (b) must include a reference to any matters to which the statutory auditors wish to draw attention by way of emphasis without qualifying the report.”.

Auditors' report to be signed and dated

6. After section 78 of the 1986 Act insert—

“Signature of auditors' report

78A.—(1) The auditors' report must state the names of the auditors and be signed and dated by them.

(2) Every copy of the auditors' report which is laid before the building society at the annual general meeting or which is otherwise circulated, published or issued, must state the names of the auditors.

(3) If a copy of the auditors' report is laid before the society or otherwise circulated, published or issued without the required statement of the auditors' names, the society and every officer of it who is in default is guilty of an offence and liable on summary conviction to a fine not exceeding level 3 on the standard scale.

(4) References in this section to signature by the auditors are, where the office of auditor is held by a body corporate or partnership, to signature in the name of the body corporate or partnership by a person authorised to sign on its behalf.”.

Auditors' report and publication of accounts

7. After section 81 of the 1986 Act insert—

“Requirements in connection with publication of accounts

81A.—(1) If a building society publishes any of its statutory accounts, they must be accompanied by the relevant auditors' report under section 78.

(2) A building society that is required to prepare group accounts for a financial year must not publish its statutory individual accounts for that year without also publishing with them its statutory group accounts.

(3) If a building society publishes non-statutory accounts, it must publish with them a statement indicating—

- (a) that they are not the society's statutory accounts,
- (b) whether statutory accounts dealing with any financial year with which the non-statutory accounts purport to deal have been prepared,
- (c) whether the society's auditors have made a report under section 78 on the statutory accounts for any financial year, and
- (d) whether any such auditors' report—

- (i) was qualified or unqualified, or included a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, or
 - (ii) contained a statement under section 79(6) (failure to obtain necessary information and explanations);
- and it must not publish with any non-statutory accounts any auditors' report made under section 78.
- (4) For the purposes of this section a building society is regarded as publishing a document if it publishes, issues or circulates it or otherwise makes it available for public inspection in a manner calculated to invite members of the public generally, or any class of members of the public, to read it.
- (5) References in this section to a building society's statutory accounts are to its annual accounts as required to be laid before the society under section 81; and references to the publication by a society of "non-statutory accounts" are to the publication of—
- (a) any balance sheet or income and expenditure account relating to, or purporting to deal with, a financial year or part of a financial year of the society, or
 - (b) an account in any form purporting to be a balance sheet or income and expenditure account for the group consisting of the society and its subsidiary undertakings relating to, or purporting to deal with, a financial year or part of a financial year of the society,
- otherwise than as part of the society's statutory accounts or summary financial statement prepared under section 76.
- (6) A building society which contravenes any provision of this section, and any officer of it who is in default, is guilty of an offence and liable on summary conviction to a fine not exceeding level 3 on the standard scale."

Consequential amendments

8. The Schedule to this Order (consequential amendments to the 1986 Act) has effect.

PART 4

Transitional provisions

Regulations made under sections 72 and 73

9.—(1) Regulations made under section 72 of the 1986 Act (documents comprised in annual accounts) and in force immediately before the commencement date have effect as if made under sections 72B and 72F of that Act (inserted by this Order).

(2) Regulations made under section 73 of the 1986 Act (contents and form of annual accounts) and in force immediately before the commencement date have effect as if made under sections 72C and 72G of that Act (inserted by this Order).