SCHEDULE 6

ACCOUNTING PRINCIPLES AND RULES

PART VI

RULES FOR DETERMINING PROVISIONS

General business

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

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

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

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

(d) the society must have adequate data at its disposal to construct a reliable model of the rate of claims settlements; and

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

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

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

(2) When discounting or effecting deductions, the society must, in the notes to the accounts, disclose:

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

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

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