
STATUTORY INSTRUMENTS

1998 No. 504

BUILDING SOCIETIES

The Building Societies (Accounts and Related Provisions) Regulations 1998

<i>Made</i>	- - - -	<i>3rd March 1998</i>
<i>Laid before Parliament</i>		<i>5th March 1998</i>
<i>Coming into force</i>	- -	<i>27th March 1998</i>

The Building Societies Commission, with the consent of the Treasury, in exercise of the powers conferred on it by sections 73(6), (7) and (8), 74(1), (2), (3), (4) and (6), 75(1) and 76(3) of the Building Societies Act 1986(1), and of all other powers enabling it in that behalf, hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Building Societies (Accounts and Related Provisions) Regulations 1998 and shall come into force on 27th March 1998.

Interpretation

2. In these Regulations—

“the Act” means the Building Societies Act 1986;

“group” means a society and its subsidiary undertakings;

“group accounts society” means a society the directors of which are obliged by section 72 of the Act(2) (duty of directors to prepare annual accounts) to prepare group accounts;

“particular account” means an income and expenditure account, a balance sheet, or a statement of the source and application of funds;

“subsidiary undertaking” means a subsidiary undertaking of a group accounts society with which the group accounts of the society are required by section 72 of the Act to deal;

“single accounts society” means a society which is not a group accounts society;

“society” means a building society; and

(1) 1986 c. 53; sections 73, 74, 75 and 76 were amended by section 43 of, and Schedule 7 to, the Building Societies Act 1997 (c. 32).

(2) Section 72 was amended by S.I.1991/1729.

“undertaking” has the meaning given to that word in section 259(1) of the Companies Act 1985(3).

Annual accounts

- 3.—(1) In respect of the annual accounts of any single accounts society—
- (a) every income and expenditure account shall be prepared in the format set out in Part I of Schedule 1;
 - (b) every balance sheet shall be prepared in the format set out in Part I of Schedule 2; and
 - (c) every statement of the source and application of funds shall be prepared in the format set out in Part I of Schedule 3,

in each case in accordance with the relevant provisions, and every such document shall, subject to the following paragraphs of this regulation, be prepared in the order and under the headings and subheadings in the format applicable to it.

- (2) In respect of the annual accounts of any group accounts society—
- (a) the provisions of this regulation shall apply subject to the provisions of regulation 4, the supplementary provisions of which shall also have effect in relation to those accounts; and
 - (b) within those accounts—
 - (i) every income and expenditure account relating to the society shall be prepared in the format set out in Part I of Schedule 1;
 - (ii) every income and expenditure account relating to the society and its subsidiary undertakings shall be prepared on a consolidated basis in the format set out in Part II of Schedule 1;
 - (iii) every balance sheet relating to the society shall be prepared in the format set out in Part I of Schedule 2;
 - (iv) every balance sheet relating to the society and its subsidiary undertakings shall be prepared on a consolidated basis in the format set out in Part II of Schedule 2; and
 - (v) every statement of the source and application of funds of the society and its subsidiary undertakings shall be prepared on a consolidated basis in the format set out in Part II of Schedule 3, and if such a statement is also prepared in relation to the society alone, that further statement shall be prepared in the format set out in Part I thereof,

and in each case in accordance with the relevant provisions, and every such document shall, subject to the following paragraphs of this regulation, be prepared in the order and under the headings and subheadings in the format applicable to it.

- (3) Paragraphs (1) and (2) are not to be read as—
- (a) requiring the heading or subheading for any item to be distinguished by any letter or number assigned to that item in the format in which it appears;
 - (b) prohibiting the showing of any item in a particular account in greater detail (with or without additional subdivisions) than is required by the format for that particular account; or
 - (c) prohibiting the insertion of additional items, provided that their contents are not specifically covered by any of the items prescribed in the formats.
- (4) Where the heading of an item in any format set out in Schedule 1 or 2 contains any wording in square brackets, that wording may be omitted if not applicable to the society.

(3) 1985 c. 6; section 259 was inserted by section 22 of the Companies Act 1989 (c. 40).

(5) Items preceded by a lower case letter in any format set out in Schedule 1, 2 or 3 may be combined in a society's annual accounts for any financial year if either:

- (a) their individual amounts are not material to assessing—
 - (i) in respect of an income and expenditure account, the income and expenditure of the society (or, as the case may be, the society and its subsidiary undertakings) for that year;
 - (ii) in respect of a balance sheet, the state of affairs of the society (or, as the case may be, the society and its subsidiary undertakings) as at the end of that year; and
 - (iii) in respect of a statement of the source and application of funds, the manner in which the business of the society (or, as the case may be, the society and its subsidiary undertakings) has been financed and in which its (or their) financial resources have been used during that year; or
- (b) their combination facilitates that assessment,

but where sub-paragraph (b) applies, the individual amounts of any items so combined shall be disclosed in a note to the annual accounts.

(6) Subject to paragraph (7), a heading or subheading for an item contained in any format set out in Schedule 1, 2 or 3 shall not be included if there is no amount to be shown for that item in respect of the financial year to which the annual accounts relate (and a total need not be included if, as a result of this paragraph, it would be composed of a single item).

(7) For the purpose of comparing particular accounts with those for the preceding financial year—

- (a) in respect of every item shown in a balance sheet, income and expenditure account and statement of the source and application of funds, the corresponding amount for the preceding financial year shall be shown;
- (b) where that corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the annual accounts relate, the former amount shall be adjusted and particulars of the adjustment and the reasons for it shall be disclosed in a note to the annual accounts; and
- (c) paragraph (6) does not apply in any case where an amount can be shown for the item to which the heading or subheading relates in respect of the preceding financial year; in such a case that amount shall be shown under the heading or subheading required for that item.

(8) In this regulation, “the relevant provisions” means, in relation to any particular account, Part III of the Schedule in question, Parts I and II of which contain formats of that particular account.

Group accounts: supplementary provisions

4.—(1) The annual accounts of a group accounts society shall comply with the further provisions of Schedule 4 as to the form and content of the consolidated income and expenditure account, the balance sheet, the statement of the source and application of funds and the additional information to be provided by way of notes to the accounts.

(2) Subject to the exceptions authorised or required by this regulation, all the subsidiary undertakings of the society shall be included in the consolidated income and expenditure account, the balance sheet and the statement of the source and application of funds, as required by regulation 3(2), and in the notes to the accounts in respect of the society and its subsidiary undertakings in combination, as required by regulation 5(2)(b).

(3) A subsidiary undertaking may be excluded from the requirements of paragraph (2) if compliance with those requirements is not material for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

(4) If a society has two or more subsidiary undertakings, they do not qualify under paragraph (3) for exclusion from the requirements of paragraph (2) if taken as a whole they are material for the purpose described in paragraph (3).

(5) A subsidiary undertaking may also be excluded from the requirements of paragraph (2) where—

- (a) severe long-term restrictions substantially hinder the exercise by the society of its rights over the assets or management of the subsidiary undertaking;
- (b) the information necessary for the preparation of group accounts cannot be obtained without disproportionate expense or undue delay; or
- (c) the interest of the society is held exclusively with a view to subsequent resale and the subsidiary undertaking has not been previously included in the group accounts prepared by the society.

(6) The references in sub-paragraphs (a) and (c) of paragraph (5) to the rights of the society and to the interest of the society are, respectively to rights and interests held by or attributed to the society for the purposes of section 258 of the Companies Act 1985(4) (definition of “parent undertaking”) in the absence of which it would not be the parent body.

(7) A subsidiary undertaking shall be excluded from the requirements of paragraph (2) where its activities are so different from those of the society or other subsidiary undertakings included in the group accounts that its inclusion would be incompatible with the obligation to give a true and fair view of the matters referred to in paragraph (3); provided that an undertaking shall not be excluded under this paragraph from the requirements of paragraph (2) if its activities are a direct extension of, or services ancillary to, banking business of the society; and for the purposes of this paragraph, “banking business” means the carrying on of a deposit-taking business within the meaning of section 6 of the Banking Act 1987(5).

(8) Each particular account which is a group account shall combine the information contained in the particular account of the society and the accounts of its subsidiary undertakings from which it is derived, adjusted so far as is necessary to consolidate those accounts.

(9) In the group accounts, the interest of the society or of any subsidiary undertaking in an associated undertaking, and the amount of income or expenditure attributable to such an interest, shall be shown by the equity method of accounting (which shall include dealing with any goodwill arising in accordance with paragraphs 8 to 10 and 12 of Schedule 7).

(10) Where an associated undertaking is itself a parent undertaking, the net assets and income or expenditure required to be taken into account by paragraph (9) are those of the parent undertaking and its subsidiary undertakings, after making any consolidation adjustments.

(11) For the purposes of paragraph (10), “parent undertaking” and “subsidiary undertaking” have the meanings attributed to those phrases by section 258 of the Companies Act 1985.

(12) The equity method of accounting referred to in paragraph (9) need not be applied if the amounts in question are not material for the purpose of giving a true and fair view, for the society and its subsidiary undertakings as a whole, of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

(4) 1985 c. 6; section 258 was inserted by sections 1 and 21 of the Companies Act 1989 (c. 40). The definition of “subsidiary undertaking” in section 258 is applied to building societies by section 119(1) of the Building Societies Act 1986 as amended by S.I. 1991/1729.

(5) 1987 c. 22.

Notes to annual accounts

5.—(1) The annual accounts of any single accounts society shall, subject to paragraph (5), include notes to them containing the material specified and set out in the manner specified in Schedule 5, in addition to the notes required to be included by other provisions of these Regulations.

(2) The annual accounts of any group accounts society shall, subject to paragraph (5) and any provision in Schedule 5 which indicates otherwise, include notes to them containing—

(a) in respect of the society; and

(b) in respect of the society and those of its subsidiary undertakings not excluded from the requirements of regulation 4(2), in combination,

the material specified in Schedule 5 in addition to the notes required to be included by other provisions of these Regulations.

(3) For the purposes of paragraph (2)(b) any reference in a relevant provision of Schedule 5 to a society shall be taken as a reference to the society and its subsidiary undertakings in combination.

(4) In paragraph (3) “relevant provision” means, in relation to Schedule 5, a provision thereof other than paragraphs 4 to 11, 13, 14(3)(b) and 35.

(5) Paragraphs (1) and (2) are not to be read as prohibiting the disclosing of any material in the notes to the annual accounts in greater detail than is required by these Regulations.

Holdings in undertakings

6.—(1) The information specified in Schedule 6 shall be given in relation to the holdings in undertakings there described, in addition to that required by regulation 5, in the notes to the annual accounts of a society.

(2) The information required by paragraph (1) shall comprise—

(a) where the society is a single accounts society, or a group accounts society but all its subsidiary undertakings are excluded from the requirements of regulation 4(2), the information specified in Part I of Schedule 6; and

(b) where the society is a group accounts society and at least one subsidiary undertaking is included in the group accounts in accordance with the requirements of regulation 4(2), the information specified in Part II of Schedule 6.

(3) The information required by Schedule 6 need not be given with respect to an undertaking which—

(a) is established under the law of a country outside the United Kingdom; or

(b) carries on its business outside the United Kingdom,

if in the opinion of the directors of the society the disclosure would seriously prejudice the business of that undertaking or the business of the society or any of its subsidiary undertakings, and the Commission agrees that the information need not be given.

(4) Where advantage is taken of paragraph (3), that fact shall be stated in a note to the accounts.

(5) If the directors of the society are of the opinion that the number of undertakings in respect of which the society is required to give information specified in Schedule 6 is such that to do so would result in information of excessive length being given, the information need only be given in respect of—

(a) such of those undertakings whose results or financial position, in the opinion of the directors, principally affected the figures shown in the society’s annual accounts; and

(b) subsidiary undertakings excluded from the requirements of regulation 4(2).

(6) Where advantage is taken of paragraph (5), there shall be included in the notes a statement that the information specified in Schedule 6 is given only with respect to such undertakings as are mentioned in that paragraph.

Accounting principles and rules

7. Each society shall prepare its annual accounts in accordance with the accounting principles and rules set out in Schedule 7.

Directors' report

8. Each directors' report of a society prepared under section 75 of the Act shall contain, in addition to the other matters required to be contained in it by the Act, the material specified in Schedule 8.

Annual business statement

9.—(1) Each annual business statement of a society prepared under section 74 of the Act shall, subject to paragraphs (2) and (3), contain the material specified in Schedule 9.

(2) Nothing in this regulation—

- (a) requires the setting out of the material specified in Schedule 9 in any particular manner; or
- (b) prohibits the inclusion, for the purpose of the giving in the annual business statement of a true representation of the matters to which that material relates, of material additional to that required to be included by this regulation.

(3) Any material required or permitted by this regulation to be contained in the annual business statement may be included instead in the notes to the annual accounts or in the directors' report and, where any such material is so included, the annual business statement shall specify where in those notes or that report that material is to be found.

(4) The material required to be contained in the annual business statement by virtue of paragraph 3 of Schedule 9 shall not be the subject of report by auditors under section 78 of the Act.

Summary financial statement

10.—(1) Subject to paragraph (2), each summary financial statement of a society prepared under section 76 of the Act shall be prepared in the order and under the headings and subheadings shown in the formats (and as directed by the notes) set out in Part I, and in accordance with the provisions of Part II, of Schedule 10, so as to contain—

- (a) a statement in the prescribed form for the purposes of section 76(4) of the Act;
- (b) a summary directors' report;
- (c) a summary statement; and
- (d) a summary of key financial ratios,

followed by the statement of the auditors' opinion required to be included by section 76(5) of the Act, and so as to give a summary account of the relevant matters.

(2) Paragraph (1) is not to be read as—

- (a) requiring the heading or subheading for any item to be distinguished by any letter or number assigned to that item in the format in which it appears;
- (b) prohibiting the inclusion, in place of the words “THIS YEAR” and “LAST YEAR” in Sections C and D of Part I of Schedule 10, of other column headings consistent with paragraph 2 of Part II of that Schedule; or

- (c) prohibiting the inclusion, for the purpose of assisting the giving in the summary financial statement of a summary account of the relevant matters, of material additional to that required to be included by this regulation.

(3) In this regulation “the relevant matters” are, in relation to a financial year of a society with which a summary financial statement deals, the financial development (during the year) and the financial position (at the end of the year) of—

- (a) where section 76(2) of the Act does not apply, the society; and
- (b) where section 76(2) of the Act applies, the society and its connected undertakings.

Interpretation of Schedules

11. Schedule 11 shall have effect for the interpretation of the Schedules to these Regulations.

Transitional provisions

12.—(1) Where any provision of these Regulations requires—

- (a) the recording of a particular item for the entirety of a financial year, and—
 - (i) that financial year began before the operative date of these Regulations for a society; and
 - (ii) the legislation in force, or, as the case may be, the requirements applying to a society by virtue of paragraph (4) during the period beginning with the start of the financial year and ending immediately before the operative date of these Regulations for a society did not require the recording of that particular item; or
- (b) the recording of a particular item as at the end of a previous financial year, and—
 - (i) that previous financial year ended before the operative date of these Regulations for a society; and
 - (ii) the legislation in force or, as the case may be, the requirements applying to a society by virtue of paragraph (4) as at the end of that previous financial year did not require the recording of that partic.,.

then if the records of the society are so kept as to enable that particular item to be identified, it shall be identified and so recorded, but if the records of the society are not so kept, it shall be included on the basis of an estimate.

(2) Where under paragraph (1) an estimate is used in respect of any item, that fact shall be disclosed in a note to the accounts.

(3) In the case of acquisitions made prior to the date on which a society first prepared its annual accounts in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1992(6), no amount need be included in any figure required to be disclosed under paragraph 11 of Schedule 4, or (if all relevant acquisitions were made prior to that date) no figure need be disclosed, if the information necessary to calculate the amount or figure with material accuracy is unavailable or cannot be obtained without unreasonable expense and delay, provided it is disclosed in the notes to the accounts that an amount has not been included or the figure has not been disclosed on these grounds.

(4) A society shall prepare, with respect to a financial year which ended before the operative date of these Regulations for it, such annual accounts in respect of that financial year as it would have been required to prepare had these Regulations not been made, and for the purpose of this paragraph the annual accounts shall be taken to include the annual business statement, the directors' report and the summary financial statement.

(6) S.I. 1992/359.

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(5) A society may prepare, with respect to the first financial year ending after the operative date of these Regulations for it, a directors' report which does not contain the information described in paragraph 9(2) of Schedule 8.

(6) For the purpose of this regulation, the operative date of these Regulations for a society is the later of—

- (a) the date of the coming into force of these Regulations; and
- (b) the date on which the provisions of the Building Societies Act 1997 specified in Part II of the Schedule to the Building Societies Act 1997 (Commencement No. 3) Order 1997(7) have come into force in accordance with Article 2 of the Order in relation to the society.

Revocation

13. The Building Societies (Accounts and Related Provisions) Regulations 1992, the Building Societies (Accounts and Related Provisions) (Amendment) Regulations 1994(8) and the Building Societies (Accounts and Related Provisions) (Amendment) Regulations 1995(9) are hereby revoked.

In witness whereof the common seal of the Building Societies Commission is hereto fixed, and is authenticated by me, a person authorised under paragraph 14 of Schedule 1 to the Building Societies Act 1986, on

2nd March 1998.

G. S. Johnson
Secretary to the Commission

We consent to this Order.

3rd March 1998

Jim Dowd
Bob Ainsworth
Two of the Lords Commissioners of Her
Majesty's Treasury

(7) S.I. 1997/2668 (C.99).
(8) S.I. 1994/2459.
(9) S.I. 1995/3065.

SCHEDULE 1

Regulation 3

PART I

FORMAT OF SOCIETY INCOME AND EXPENDITURE ACCOUNT

1. Interest receivable and similar income
 - (a) (i) On loans fully secured on residential property
 - (ii) On other loans
 - (b) On debt securities
 - (c) On other liquid assets
 - (d) Other interest receivable and similar income
2. Interest payable and similar charges
 - (a) (i) On shares held by individuals
 - (ii) On other shares
 - (iii) On subscribed capital
 - (b) On deposits and other borrowings
 - (c) Other interest payable and similar charges
3. Net interest receivable
4. Income from investments
 - (a) Income from equity shares [and other variable yield securities]
 - (b) Income from participating interests
 - (c) Income from shares in subsidiary undertakings
 - (d) Other income from investments
5. Fees and commissions receivable
6. Fees and commissions payable
7. Net profit or loss on financial operations
8. Other operating income
9. Administrative expenses
 - (a) Staff costs
 - (i) Wages and salaries
 - (ii) Social security costs
 - (iii) Other pension costs
 - (b) Other administrative expenses
10. Depreciation and amortisation
11. Other operating charges
12. Provisions
 - (a) Provisions for bad and doubtful debts
 - (b) Provisions for contingent liabilities and commitments

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13. Adjustments to provisions
 - (a) Adjustments to provisions for bad and doubtful debts
 - (b) Adjustments to provisions for contingent liabilities and commitments
14. Amounts written off fixed asset investments
15. Adjustments to amounts written off fixed asset investments
16. Profit or loss on ordinary activities before tax
17. Tax on profit or loss on ordinary activities
18. Profit or loss on ordinary activities after tax
19. Extraordinary income
20. Extraordinary charges
21. Extraordinary profit or loss
22. Tax on extraordinary profit or loss
23. Extraordinary profit or loss after tax
24. Other taxes not shown under the preceding items
25. Profit or loss for the financial year

PART II

FORMAT OF CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

1. Interest receivable and similar income
 - (a)
 - (i) On loans fully secured on residential property
 - (ii) On other loans
 - (b) On debt securities
 - (c) On other liquid assets
 - (d) Other interest receivable and similar income
2. Interest payable and similar charges
 - (a)
 - (i) On shares held by individuals
 - (ii) On other shares
 - (iii) On subscribed capital
 - (b) On deposits and other borrowings
 - (c) Other interest payable and similar charges
3. Net interest receivable
4. Income from investments
 - (a) Income from equity shares [and other variable yield securities]
 - (b) Income from associated undertakings
 - (c) Income from other participating interests
 - (d) Income from shares in unconsolidated subsidiary undertakings
 - (e) Other income from investments

5. Fees and commissions receivable
6. Fees and commissions payable
7. Net profit or loss on financial operations
8. Other operating income
9. Administrative expenses
 - (a) Staff costs
 - (i) Wages and salaries
 - (ii) Social security costs
 - (iii) Other pension costs
 - (b) Other administrative expenses
10. Depreciation and amortisation
11. Other operating charges
12. Provisions
 - (a) Provisions for bad and doubtful debts
 - (b) Provisions for contingent liabilities and commitments
13. Adjustments to provisions
 - (a) Adjustments to provisions for bad and doubtful debts
 - (b) Adjustments to provisions for contingent liabilities and commitments
14. Amounts written off fixed asset investments
15. Adjustments to amounts written off fixed asset investments
16. Profit or loss on ordinary activities before tax
17. Tax on profit or loss on ordinary activities
18. Profit or loss on ordinary activities after tax
19. Minority interests
20. Profit or loss before extraordinary items
21. Extraordinary income
22. Extraordinary charges
23. Extraordinary profit or loss
24. Tax on extraordinary profit or loss
25. Extraordinary profit or loss after tax
26. Minority interests in extraordinary profit or loss after tax
27. Other taxes not shown under the preceding items
28. Profit or loss for the financial year

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PART III

PROVISIONS APPLICABLE TO PARTS I AND II

1.—(1) Item 1(a) in each of Parts I and II shall include—

- (a) all income from assets entered under Asset item B in the balance sheet in the corresponding Part of Schedule 2, however calculated; and
- (b) interest receivable on—
 - (i) in the case of Part I, loans within Asset items C. 2 and C. 3; and
 - (ii) in the case of Part II, loans within Asset items C. 2 to C. 4.

(2) Item 1(b) and (c) in each of Parts I and II shall include interest, other income and profits net of losses arising from liquid assets, except to the extent that they are included in item 7 in Parts I and II in accordance with paragraph 4 of this Part and the notes to the annual accounts shall disclose the amount of profits net of losses arising from liquid assets (except for amounts included in item 7 in each of Parts I and II) and the amount of interest and other income arising from them as separate amounts unless those two amounts are separately stated under each of item 1(b) and (c) in each case.

(3) Item 1 in each Part shall include fees and commissions receivable similar in nature to interest and calculated on a time basis or by reference to the amount of the claim or liability (but not other fees and commissions receivable).

(4) Item 1 in each Part shall also include income from financial instruments, which is spread over the actual duration of the contract and similar in nature to interest.

(5) The total amount of income from fixed income securities included in item 1 in each Part shall be disclosed in a note to the accounts.

2.—(1) Items 2(a)(i) and 2(a)(ii) in each of Parts I and II shall include all charges arising, respectively, out of liabilities shown under Liability item A in the corresponding Part of Schedule 2.

(2) Item 2(b) in each Part shall include all charges arising out of liabilities shown under Liability items B, C, D and H in the corresponding Part of Schedule 2.

(3) Item 2 in each Part shall include fees and commissions payable similar in nature to interest and calculated on a time basis or by reference to the amount of the claim or liability (but not other fees and commissions payable).

(4) Item 2 in each Part shall also include charges on financial instruments which are spread over the actual duration of the contract and similar in nature to interest.

3.—(1) Item 5 in each of Parts I and II shall include income in respect of all services supplied for the account of third parties, apart from fees and commissions required to be included under “interest receivable” in item 1 in each Part, and item 6 shall include charges for the use of services of third parties, apart from fees and commissions required to be included under “interest payable” in item 2 in each Part.

(2) Any amount, apart from an appointed agency payment, which represents—

- (a) fees and commissions for guarantees and loan administration;
- (b) commissions and other charges and income in respect of payment transactions, account administration charges and commissions for the safe custody and administration of deeds, securities or other related documents;
- (c) fees and commissions for foreign currency transactions;
- (d) commissions and other charges and income in connection with insurance and pension contracts; or

- (e) commissions and other charges and income for brokerage services in connection with savings and insurance contracts and loans,

and which falls within sub-paragraph (1) but would also be capable of being included within an item other than those referred to in that sub-paragraph shall be included within items 5 and 6 in Parts I and II as appropriate.

- (3) Appointed agency payments shall be included within item 9(b) in each Part.

(4) For the purposes of sub-paragraphs (2) and (3), an appointed agency payment is a payment for a relevant agency function to a person who, by virtue of an appointment by a society, acts as its agent in that function, and a relevant agency function comprises action as an agent of the society for the purpose of receipt of sums in respect of shares or deposits or the making of loans or advances.

- 4. Item 7 in each of Parts I and II shall comprise—

- (a) the net profit or net loss on transactions in securities which are not held as financial fixed assets together with amounts written off or written back as a result of the application of paragraph 16(1) in Schedule 7; and
- (b) the net profit or loss on financial instruments, except in so far as that income or charge is included, in accordance with paragraphs 1(4) and 2(4), under items 1 and 2 in each of Parts I and II.

- 5. Item 10 in each of Parts I and II shall comprise—

- (a) amortisation and other amounts written off Asset item D; and
- (b) depreciation and other amounts written off Asset item E,

in the corresponding Part of Schedule 2.

6. Item 12(a) in each of Parts I and II shall comprise charges for amounts written off and for provisions made in respect of loans and advances to customers shown under Asset item B in the corresponding Part of Schedule 2.

7. Item 12(b) in each of Parts I and II shall comprise charges for provisions for contingent liabilities and commitments of a type which would, if not provided for, be shown under Memorandum items A and B in the corresponding Part of Schedule 2.

8. Item 13(a) in each of Parts I and II shall include credits from the recovery of loans and advances to customers shown under Asset item B in the corresponding Part of Schedule 2 and which have been previously written off, or were written back following earlier write offs, and from the reduction of provisions previously made with respect to such loans and advances.

9. Item 13(b) in each of Parts I and II shall comprise credits from the reduction of provisions previously made with respect to contingent liabilities and commitments.

10. Item 14 in each of Parts I and II shall comprise amounts written off in respect of transferable securities held as financial fixed assets, participating interests, and shares in subsidiary undertakings which are included in Asset items A.2 to A.4 and C in the corresponding Part of Schedule 2.

11. Item 15 in each of Parts I and II shall include amounts written back following earlier write offs and provisions in respect of transferable securities held as financial fixed assets, participating interests and subsidiary undertakings and which are included in Asset items A.2 to A.4 and C in the corresponding Part of Schedule 2.

- 12. In this Schedule “financial instrument” means—

- (a) in relation to Parts I and II, an instrument concerning a transaction described in subsections (2) to (4) of section 9A of the Act(10) (restrictions on certain transactions); and

(10) Section 9A was inserted by section 10 of the Building Societies Act 1997.

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- (b) in relation to Part II, an instrument on which interest or a dividend is capable of being received and which is not an advance, a loan or a liquid asset.

13. Where a heading in either Part I or Part II contains the wording “profit or loss”, such wording shall be replaced by “profit” or “loss” as appropriate.

SCHEDULE 2

Regulation 3

PART I

FORMAT OF SOCIETY BALANCE SHEET

Assets

A. LIQUID ASSETS

1. Cash in hand and balances with the Bank of England
2. Treasury bills and other eligible bills
 - (a) Treasury bills and similar securities
 - (b) Other eligible bills
3. Loans and advances to credit institutions
 - (a) Repayable on demand
 - (b) Other loans and advances
4. Debt securities [and other fixed income securities]
 - (a) Issued by public bodies
 - (b) Issued by other borrowers
5. Other liquid assets

B. LOANS AND ADVANCES TO CUSTOMERS

1. Loans fully secured on residential property
2. Other loans
 - (a) Loans fully secured on land
 - (b) Other loans

C. INVESTMENTS

1. Equity shares [and other variable yield securities]
2. Participating interests
 - (a) Credit institutions
 - (b) Other participating interests
3. Investments in subsidiary undertakings
 - (a) Credit institutions
 - (b) Other subsidiary undertakings
4. Other investments

D. INTANGIBLE FIXED ASSETS

E. TANGIBLE FIXED ASSETS

- (a) Land and buildings
- (b) Plant and machinery
- (c) Equipment, fixtures, fittings and vehicles
- (d) Payments on account and assets in the course of construction

F. OTHER ASSETS

G. PREPAYMENTS AND ACCRUED INCOME

H. TOTAL ASSETS

Liabilities

A. SHARES

- (a) Held by individuals
- (b) Other shares

B. AMOUNTS OWED TO CREDIT INSTITUTIONS

- (a) Repayable on demand
- (b) With agreed maturity dates or periods of notice

C. AMOUNTS OWED TO OTHER CUSTOMERS

- (a) Repayable on demand
- b) With agreed maturity dates or periods of notice

D. DEBT SECURITIES IN ISSUE

- (a) Certificates of deposit
- (b) Fixed and floating rate notes
- (c) Other debt securities

E. OTHER LIABILITIES

- (a) Income tax
- (b) Corporation tax
- (c) Other creditors

F. ACCRUALS AND DEFERRED INCOME

G. PROVISIONS FOR LIABILITIES AND CHARGES

- (a) Provisions for pensions and similar obligations
- (b) Provisions for tax
- (c) Other provisions

H. SUBORDINATED LIABILITIES

I. SUBSCRIBED CAPITAL

J. REVALUATION RESERVE

K. RESERVES

- (a) General reserves

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- (b) Other reserves

L. TOTAL LIABILITIES

Memorandum items

A. CONTINGENT LIABILITIES

- (a) Acceptances and endorsements
- (b) Guarantees and assets pledged as collateral security
- (c) Other contingent liabilities

B. COMMITMENTS

- (a) Commitments arising out of sale and repurchase transactions
- (b) Other commitments

PART II

FORMAT OF CONSOLIDATED BALANCE SHEET

Assets

A. LIQUID ASSETS

1. Cash in hand and balances with the Bank of England
2. Treasury bills and other eligible bills
 - (a) Treasury bills and similar securities
 - (b) Other eligible bills
3. Loans and advances to credit institutions
 - (a) Repayable on demand
 - (b) Other loans and advances
4. Debt securities [and other fixed income securities]
 - (a) Issued by public bodies
 - (b) Issued by other borrowers
5. Other liquid assets

B. LOANS AND ADVANCES TO CUSTOMERS

1. Loans fully secured on residential property
2. Other loans
 - (a) Loans fully secured on land
 - (b) Other loans

C. INVESTMENTS

1. Equity shares [and other variable yield securities]
2. Interests in associated undertakings
 - (a) Credit institutions
 - (b) Other associated undertakings

- 3. Other participating interests
 - (a) Credit institutions
 - (b) Other participating interests
- 4. Investments in unconsolidated subsidiary undertakings
 - (a) Credit institutions
 - (b) Other subsidiary undertakings
- 5. Other investments
- D. INTANGIBLE FIXED ASSETS**
- E. TANGIBLE FIXED ASSETS**
 - (a) Land and buildings
 - (b) Plant and machinery
 - (c) Equipment, fixtures, fittings and vehicles
 - (d) Payments on account and assets in the course of construction
- F. OTHER ASSETS**
- G. PREPAYMENTS AND ACCRUED INCOME**
- H. TOTAL ASSETS**

Liabilities

- A. SHARES**
 - (a) Held by individuals
 - (b) Other shares
- B. AMOUNTS OWED TO CREDIT INSTITUTIONS**
 - (a) Repayable on demand
 - (b) With agreed maturity dates or periods of notice
- C. AMOUNTS OWED TO OTHER CUSTOMERS**
 - (a) Repayable on demand
 - (b) With agreed maturity dates or periods of notice
- D. DEBT SECURITIES IN ISSUE**
 - (a) Certificates of deposit
 - (b) Fixed and floating rate notes
 - (c) Other debt securities
- E. OTHER LIABILITIES**
 - (a) Income tax
 - (b) Corporation tax
 - (c) Other creditors
- F. ACCRUALS AND DEFERRED INCOME**
- G. PROVISIONS FOR LIABILITIES AND CHARGES**
 - (a) Provisions for pensions and similar obligations

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- (b) Provisions for tax
- (c) Other provisions
- H. SUBORDINATED LIABILITIES**
- I. SUBSCRIBED CAPITAL**
- J. REVALUATION RESERVE**
- K. RESERVES**
 - (a) General reserves
 - (b) Other reserves
- L. MINORITY INTERESTS**
- M. TOTAL LIABILITIES**

Memorandum items

- A. CONTINGENT LIABILITIES**
 - (a) Acceptances and endorsements
 - (b) Guarantees and assets pledged as collateral security
 - (c) Other contingent liabilities
- B. COMMITMENTS**
 - (a) Commitments arising out of sale and repurchase transactions
 - (b) Other commitments

PART III

PROVISIONS APPLICABLE TO PARTS I AND II

1. In respect of Asset items A.2 to A.4 and B and Liability items B to D and H, the following shall be shown either by subdivision of the relevant items or by way of notes to the accounts—

- (a) in the case of such items in Part I, claims on, or liabilities to, subsidiary undertakings;
- (b) in the case of such items in Part II, claims on, or liabilities to, any unconsolidated subsidiary undertakings; and
- (c) in the case of such items in both Parts I and II, claims on, or liabilities to, any undertaking in which the society has a participating interest (including, in the case of a group accounts society, any associated undertaking).

2.—(1) The amount of any assets that are subordinated must be shown either as a subdivision of any relevant asset item or in the notes to the accounts; in the latter case disclosure shall be by reference to the relevant asset item or items in which the assets are included.

(2) The amounts required to be shown in respect of paragraph 1 shall be further subdivided to show the amounts of any assets or liabilities which are subordinated.

(3) For the purposes of sub-paragraphs (1) and (2), assets or liabilities are subordinated if there is a contractual obligation to the effect that in the event of winding up or bankruptcy they are to be repaid only after the claims of other creditors have been met (other than any creditors ranking *pari passu* with those liabilities) whether or not a ranking has been agreed between the subordinated creditors concerned.

3.—(1) This paragraph applies to Asset item A in each of Parts I and II.

(2) There shall be included in Asset item A.1—

- (a) banknotes or coinage of any country or territory;
- (b) deposits with the Bank of England which may be withdrawn without notice; all other claims on central or post office banks shall be included in Asset item A.3 or B.

(3) There shall be included in Asset item A.2(a) Treasury bills and similar debt instruments issued by public bodies which are eligible for refinancing with the Bank of England. Any Treasury bills or similar debt instruments not so eligible shall be included under Asset item A.2(b).

(4) There shall be included in Asset item A.2(b) all bills that have been purchased to the extent that they are eligible for refinancing with the Bank of England other than those bills included in Asset item A.2(a).

(5) There shall be included in Asset item A.3 all deposits with, but excluding any debt securities issued or guaranteed by, any credit institution.

- (a) (6) (a) Asset item A.4 shall comprise transferable debt securities issued or guaranteed by any credit institution or by other undertakings or public bodies.
- (b) Debt securities issued by public bodies shall however, only be included in this item if they may not be shown under Asset item A.2.
- (c) Where a society holds its own debt securities these shall not be included under this item but shall be deducted from the appropriate liabilities item.
- (d) Securities bearing interest rates that vary in accordance with specific factors, for example the interest rate on the inter-bank market or on the Euromarket, shall also be regarded as debt securities to be included under this item.
- (e) Fixed income securities shall be included in Asset item A.4 to the extent that they are not included in Asset item A.2.

(7) For the purposes of this paragraph—

“deposit” means a sum of money paid on terms—

- (a) under which it will be repaid, with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it; and
- (b) which are not referable to the provision of property or services or the giving of security; and,

for the purposes of this definition, money is paid on terms which are referable to the provision of property or services or to the giving of security if, and only if—

- (i) it is paid by way of advance or part payment under a contract for the sale, hire or other provision of property or service, and is repayable only in the event that the property or service is not or are not in fact sold, hired or otherwise provided;
- (ii) it is paid by way of security for the performance of a contract or by way of security in respect of loss which may result from the non performance of a contract; or
- (iii) without prejudice to sub-paragraph (ii) above, it is paid by way of security for the delivery up or return of any property, whether in a particular state of repair or otherwise; and

“Treasury bills” means bills issued by Her Majesty’s Government in the United Kingdom and Northern Ireland Treasury Bills.

4. Asset item B.1 in each of Parts I and II shall comprise all loans within the term “Y” in section 6(2) of the Act(11).

(11) Section 6 was substituted by section 4 of the Building Societies Act 1997 (c. 32).

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5. Asset item B.2(a) in each of Parts I and II shall comprise all loans fully secured on land within the meaning of section 6B of the Act⁽¹²⁾ other than those included under Asset item B.1.

- (a) (a) Asset item D in each of Parts I and II shall comprise—
 - (i) development costs;
 - (ii) concessions, patents, licences, trade marks and similar rights and assets;
 - (iii) goodwill; and
 - (iv) payments on account relating to intangible fixed assets.
- (b) Amounts shall be included in respect of the assets mentioned in sub-paragraph (a)(ii) only if they were acquired for valuable consideration or if they were created by the society or by a subsidiary undertaking.
- (c) Amounts representing goodwill shall be included only to the extent that the goodwill was acquired for valuable consideration.
- (d) There shall be disclosed, in a note to the accounts the amount of any goodwill included in Asset item D in each of Parts I and II.

7. Asset item G in each of Parts I and II shall include any expenditure incurred during the financial year but relating to a subsequent financial year, together with any income which, although relating to the financial year in question, is not due until after its expiry, except that it shall not include accrued interest in respect of Asset items A and B in each of Parts I and II which accrued interest shall be included under those items.

8. Liability item A(a) in each of Parts I and II shall exclude shares held by individuals as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

9. For the purpose of Liability item D in each of Parts I and II—

- (a) “certificate of deposit” means a certificate relating to money deposited with the issuer which recognises an obligation to pay a stated amount to bearer or to order, with or without interest, and by the delivery of which, with or without endorsement, the right to receive that stated amount, with or without interest is transferable;
- (b) “floating rate note” means a note which embodies a right, transferable to any person by delivery or by a method specified in the note, to receive a principal sum and interest at a rate which is variable at times specified in the note; and
- (c) “fixed rate note” means a note which embodies a right, transferable to any person by delivery or by a method specified in the note, to receive a principal sum and interest at a rate which is fixed as specified in the note.

10. Liability item F in each of Parts I and II shall include any income relating to a subsequent financial year, together with any charges which although relating to the financial year in question, will be payable only in the course of a subsequent financial year, except that it shall not include accrued interest in respect of Liability items A to D in Parts I and II, which accrued interest shall be included under those items.

11.—(1) Liability item H in each of Parts I and II shall comprise all liabilities in respect of which there is a contractual obligation that, in the event of winding up or bankruptcy, they are to be repaid only after the claims of other creditors have been met. All subordinated liabilities shall be included, whether or not a ranking has been agreed between the subordinated creditors concerned.

(12) Section 6B was inserted by section 6 of the Building Societies Act 1997.

(2) Any subordinated loan capital of the society shall be included in Liability item H in each of Parts I and II and in no other such Liability item, but this requirement shall not be taken to exclude the obligation to include in Liability item H in part II subordinated liabilities of subsidiary undertakings.

12. Liability item I in each of Parts I and II shall comprise deferred shares.

13. Memorandum item A in each of Parts I and II shall include all transactions whereby the society (or the society and its subsidiary undertakings in respect of Part II) has underwritten the obligations of a third party.

14. Memorandum item A(b) in each of Parts I and II shall include all guarantee obligations incurred and assets pledged as collateral on behalf of third parties by the society (or the society and its subsidiary undertakings in respect of Part II).

15. Memorandum item B in each of Parts I and II shall include every irrevocable commitment which would give rise to a credit risk to the society (or the society and its subsidiary undertakings in respect of Part II).

16.—(1) The following rules apply where a society (or the society and its subsidiary undertakings in respect of Part II) is a party to a sale and repurchase transaction.

(2) Where the society is the transferor of the assets under the transaction—

- (a) the assets transferred shall, notwithstanding the transfer, be included in its balance sheet;
- (b) the purchase price received by it shall be included in its balance sheet as an amount owed to the transferee; and
- (c) the value of the assets transferred shall be disclosed in a note to its accounts.

(3) Where the society is the transferee of the assets under the transaction it shall not include the assets transferred in its balance sheet but the purchase price paid by it to the transferor shall be so included as an amount owed by the transferor.

17.—(1) For the purpose of this paragraph “managed funds” are funds which the society (or the society and its subsidiary undertakings in respect of Part II) administers in its own name but on behalf of others and to which it has legal title.

(2) Where claims and obligations arising in respect of managed funds fall to be treated as claims and obligations of the society (or the society and its subsidiary undertakings in the case of Part II) such claims and obligations representing managed funds are to be included in the balance sheet, with notes to the accounts disclosing the total amount included with respect to such assets and liabilities in the balance sheet and showing the amount included under each relevant balance sheet item in respect of such assets or (as the case may be) liabilities.

18.—(1) Where a society (or the society and its subsidiary undertakings in the case of Part II) is a party to a syndicated loan transaction, it shall include in the balance sheet only that part of the total loan which it has funded itself.

(2) Where a society (or the society and its subsidiary undertakings in the case of Part II) is a party to a syndicated loan transaction and has agreed to reimburse (in whole or in part) any other party to the syndicate any funds advanced by that party or any interest thereon upon the occurrence of any event including the default of the borrower, any additional liability by reason of such a guarantee shall be included as a contingent liability in Memorandum item A(b) in each of Parts I and II.

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SCHEDULE 3

Regulation 3

PART I

FORMAT OF SOCIETY STATEMENT OF THE
SOURCE AND APPLICATION OF FUNDS

Source of Funds

1. Increase in free capital
2. Loans and advances repaid by customers
3. Net receipts from shares
4. Net receipts from deposits and other borrowings
5. Other items

6. Total source of funds

Application of Funds

7. Increase in liquid assets
8. Loans and advances made to customers
9. Other items

10. Total application of funds

Analysis of Increase in Free Capital

Source of Funds

11. Profit on ordinary activities after tax
12. Extraordinary profit after tax
13. Adjustments for items not involving the movement of funds
 - (a) Depreciation and amortisation
 - (b) Profit on disposal of intangible fixed assets
 - (c) Profit on disposal of tangible fixed assets
 - (d) Increase in general provision for bad and doubtful debts

14. Funds generated from operations
15. Funds from other sources
 - (a) Disposal of tangible fixed assets
 - (b) Disposal of intangible fixed assets
 - (c) Issue of subordinated liabilities
 - (d) Issue of subscribed capital

16. Application of Funds
 - (a) Purchase of tangible fixed assets
 - (b) Purchase of intangible fixed assets
 - (c) Repayment of subordinated liabilities
 - (d) Repayment of subscribed capital

17. Increase in free capital

PART II

FORMAT OF CONSOLIDATED STATEMENT OF THE SOURCE AND APPLICATION OF FUNDS

Source of Funds

1. Increase in free capital
2. Loans and advances repaid by customers
3. Net receipts from shares
4. Net receipts from deposits and other borrowings
5. Other items
6. Total source of funds

Application of Funds

7. Increase in liquid assets
8. Loans and advances made to customers
9. Other items
10. Total application of funds

Analysis of Increase in Free Capital

Source of Funds

11. Profit on ordinary activities after tax
12. Extraordinary profit after tax
13. Adjustments for items not involving the movement of funds
 - (a) Depreciation and amortisation
 - (b) Profit on disposal of intangible fixed assets
 - (c) Profit on disposal of tangible fixed assets
 - (d) Increase in general provision for bad and doubtful debts
 - (e) Profits retained in associated undertakings

14. Funds generated from operations
15. Funds from other sources
 - (a) Disposal of tangible fixed assets
 - (b) Disposal of intangible fixed assets
 - (c) Issue of subordinated liabilities
 - (d) Issue of subscribed capital

16. Application of Funds
 - (a) Purchase of tangible fixed assets
 - (b) Purchase of intangible fixed assets
 - (c) Repayment of subordinated liabilities
 - (d) Repayment of subscribed capital
 - (e) Dividends paid to minority shareholders

17. Increase in free capital

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PART III

PROVISIONS APPLICABLE TO PARTS I AND II

1. In Parts I and II—

- (a) items 2 and 8 shall include respectively capital receipts and payments in respect of loans and advances included within Asset item B in Parts I and II of Schedule 2;
- (b) item 3 shall include net receipts in respect of shares included within Liability item A in Parts I and II of Schedule 2; and
- (c) item 4 shall include net receipts in respect of liabilities included within Liability items B, C or D in Parts I and II of Schedule 2.

2. Where subsidiary undertakings have been acquired or disposed of during a financial year to which a statement of the source and application of funds relates, the effect of such acquisitions or disposals shall be summarised in aggregate by way of a footnote to the statement which shall be separate from the notes to the annual accounts.

3.—(1) There shall be inserted in the notes to the annual accounts such analyses of any items as are material to the assessment of the key factors.

(2) For the purposes of sub-paragraph (1) the key factors, in relation to any statement of the source and application of funds, are—

- (a) in Part I, the manner in which the business of the society has been financed and in which its financial resources have been used; and
- (b) in Part II, the manner in which the business of the society and its subsidiary undertakings has been financed and in which their financial resources have been used,

during the financial year to which the statement relates.

4.—(1) Where in any item in a statement in Part I or II a positive term is used, and the amount referable thereto represents its corresponding negative term, the corresponding negative term shall be used instead and, where that change falls to be made within the relevant section of the statement, the format of the relevant section of the statement shall be changed so far as necessary to include that item in the grouping opposite to that specified for it in the format.

(2) For the purposes of sub-paragraph (1) the positive terms are increase, receipt and profit, their respective corresponding negative terms are decrease, outflow and loss, the groupings are source of funds and application of funds, and the relevant section of the statement comprises the section ending with item 10 in Parts I and II.

SCHEDULE 4

Regulation 4

FORM AND CONTENT OF THE ANNUAL ACCOUNTS OF A GROUP ACCOUNTS SOCIETY

General rules

1.—(1) The consolidated income and expenditure account, the consolidated balance sheet and the consolidated statement of the source and application of funds shall—

- (a) incorporate in full the information contained in the individual accounts of the subsidiary undertakings included in the consolidation, subject to the adjustments authorised or required by the following provisions of this Schedule and to such other adjustments (if

any) as may be appropriate in accordance with generally accepted accounting principles or practice; and

- (b) comply so far as practicable with the provisions of Schedule 5 (except paragraphs 4 to 11, 13, 14(3)(b) and 35 thereof) and Schedule 7 as if the undertakings included in the consolidation were a single society.

(2) If the financial year of a subsidiary undertaking included in the consolidation does not end with that of the society, the group accounts shall be made up—

- (a) from the accounts of the subsidiary undertaking for its financial year last ending before the end of the society's financial year, provided that year ended no more than three months before that of the society; or
- (b) from interim accounts prepared by the subsidiary undertaking as at the end of the parent society's financial year.

2.—(1) Where assets and liabilities to be included in the consolidated balance sheet have been valued or otherwise determined by subsidiary undertakings according to accounting rules differing from those used in the annual accounts of a group accounts society, the values or amounts shall be adjusted so as to accord with the rules used for the annual accounts of the group accounts society.

(2) If it appears to the directors of the society that there are special reasons for departing from the requirements of sub-paragraph (1) they may do so, but particulars of any such departure, the reasons for it and its effect shall be given in a note to the accounts.

(3) The adjustments referred to in this paragraph need not be made if they are not material for the purpose of giving a true and fair view for the society and its subsidiary undertakings, as a whole of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

3. Any differences of accounting rules as between a society's individual accounts for a financial year and its consolidated accounts shall be disclosed in a note to the accounts and the reasons for the differences given.

4. Amounts which in the particular context of any provision of this Schedule are not material may be disregarded for the purposes of that provision.

Elimination of group transactions

5.—(1) Debts and claims between undertakings included in the consolidation, and income and expenditure relating to transactions between such undertakings, shall be eliminated in preparing the consolidated accounts.

(2) Where profits and losses resulting from transactions between undertakings included in the consolidation are included in the book value of assets, they shall be eliminated in preparing the group accounts.

(3) The elimination required by sub-paragraph (2) may be effected in proportion to the society's interest in the shares of the undertakings.

(4) Sub-paragraphs (1) and (2) need not be complied with if the amounts concerned are not material for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

Acquisition accounting

6.—(1) The following provisions apply where an undertaking becomes a subsidiary undertaking of the society.

(2) That event is referred to in those provisions as an "acquisition", and references to the "undertaking acquired" shall be construed accordingly.

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7. An acquisition shall be accounted for by the acquisition method of accounting, unless the conditions for accounting for it as a merger as set out in paragraph 10 of Schedule 4A to the Companies Act 1985(13) are met, in which case the merger method of accounting as detailed in paragraph 11 of the said Schedule 4A shall be employed.

8.—(1) The acquisition method of accounting is set out in the following sub-paragraphs.

(2) The identifiable assets and liabilities of the undertaking acquired shall be included in the consolidated balance sheet at their fair values as at the date of acquisition.

(3) In this paragraph the “identifiable” assets or liabilities of the undertaking acquired means the assets or liabilities which are capable of being disposed of or discharged separately, without disposing of a business of the undertaking.

(4) The income and expenditure of the undertaking acquired shall be brought into the annual accounts of a group accounts society only as from the date of the acquisition.

(5) There shall be set off against the acquisition cost of the interest in the shares of the undertaking held by the society and its subsidiary undertakings the interest of the society and its subsidiary undertakings in the adjusted capital and reserves of the undertaking acquired, and for this purpose—

“the acquisition cost” means the amount of any cash consideration and the fair value of any other consideration, together with such amount (if any) in respect of fees and other expenses of the acquisition as the society may determine; and

“the adjusted capital and reserves” of the undertaking acquired means its capital and reserves at the date of the acquisition after adjusting the identifiable assets and liabilities of the undertaking to fair values as at that date.

(6) The resulting amount shall be treated, if positive, as goodwill, and if negative as a negative consolidation difference.

9.—(1) Where a group is acquired paragraph 8 applies with the adaptations set out in sub-paragraphs (2) and (3).

(2) References to shares of the undertaking acquired shall be construed as references to shares of the parent undertaking of the group.

(3) Other references to the undertaking acquired shall be construed as references to the group; and references to the assets and liabilities, income and expenditure and capital and reserves of the undertaking acquired shall be construed as references to the assets and liabilities, income and expenditure and capital and reserves of the group after making the set-offs and other adjustments required by this Schedule in the case of group accounts.

10.—(1) The following information with respect to acquisitions taking place in the financial year shall be given in a note to the accounts—

(a) the name of the undertaking acquired or, where a group was acquired, the name of the parent undertaking of that group;

(b) whether the acquisition was accounted for by the acquisition method or by the merger method of accounting.

(2) In relation to an acquisition which significantly affects the figures shown in the annual accounts of a group accounts society the following further information shall be given—

(a) the composition and fair value of the consideration for the acquisition given by the society and its subsidiary undertaking;

(13) 1985 c. 6; Schedule 4A was inserted by sections 1 and 5(2) of and Schedule 2 to the Companies Act 1989 (c. 40) but the relevant provisions are subject to paragraph 7 of Part 1 of Schedule 2 to the Companies Act 1989 (Commencement No. 4 and Transitional and Saving Provisions) Order 1990 (S.I. 1990/355).

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- (b) where the acquisition method of accounting has been adopted, the book values immediately prior to the acquisition, and the fair values at the date of acquisition, of each class of assets and liabilities of the undertaking or group acquired, in tabular form, including a statement of the amount of any goodwill or negative consolidation difference arising on the acquisition, together with an explanation of any significant adjustments made; and
- (c) where the merger method of accounting has been adopted, an explanation shall be given of any significant adjustments made in relation to the amounts of the assets and liabilities of the undertaking or group acquired, together with a statement of any resulting adjustment to the consolidated reserves (including the restatement of opening consolidated reserves).

(3) In ascertaining for the purposes of sub-paragraph (2)(b) and (2)(c) the book values and fair values of assets and liabilities of a group or the amount of the assets and liabilities of a group, the set-offs and other adjustments required by this Schedule in the case of the annual accounts of a group accounts society shall be made.

11.—(1) There shall be stated in a note to the accounts the cumulative amount of goodwill resulting from acquisitions in that and earlier financial years which has been written off otherwise than in the consolidated income and expenditure account for that or any earlier financial year.

(2) That figure shall be shown net of any goodwill attributable to a subsidiary undertaking disposed of prior to the balance sheet date.

12. Where during the financial year there has been a disposal of a subsidiary undertaking or group which significantly affects the figures shown in the annual accounts of a group accounts society, there shall be stated in a note to the accounts—

- (a) the name of that undertaking or, as the case may be, of the parent undertaking of that group; and
- (b) the extent to which the profit or loss shown in the group accounts is attributable to profit or loss of that subsidiary undertaking or group.

13. The information required by paragraph 10, 11 or 12 need not be disclosed with respect to a subsidiary undertaking which—

- (a) is established under the law of a country outside the United Kingdom; or
- (b) carries on business outside the United Kingdom,

if in the opinion of the directors of the society the disclosure would be seriously prejudicial to the business of that subsidiary undertaking or to the business of the society or any of its subsidiary undertakings and the Commission agrees that the information should not be disclosed.

14. For the purposes only of paragraphs 9, 10, 12 and 13, a “group” is a “parent undertaking” and its “subsidiary undertakings” as defined by section 258 of the Companies Act 1985, where the parent undertaking is a subsidiary undertaking of the society.

Minority interests

15.—(1) Under item 19 in Part II of Schedule 1 shall be shown the amount of any profit or loss on ordinary activities after tax attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the society and its subsidiary undertakings.

(2) Under item 26 in Part II of Schedule 1 shall be shown the amount of any profit or loss on extraordinary activities after tax attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the society and its subsidiary undertakings.

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(3) Under Liability item L in Part II of Schedule 2 shall be shown the amount of capital and reserves attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the society and its subsidiary undertakings.

Interests in subsidiary undertakings excluded from consolidation

16. The interest of the society in subsidiary undertakings excluded from consolidation under regulation 4(5), and the amount of income or expenditure attributable to such an interest, shall be shown in the consolidated balance sheet or, as the case may be, in the consolidated income and expenditure account by the equity method of accounting (and this shall include dealing with any goodwill arising in accordance with paragraphs 8 to 10 and 12 of Schedule 7).

Foreign currency translation

17.—(1) Any difference between—

- (a) the amount included in the consolidated balance sheet for the previous financial year with respect to the group's interest in any undertaking included in the consolidation or in any associated undertaking, together with the amount of any transactions undertaken to cover any such interest; and
- (b) the opening amount for the financial year in respect of the group's interest in such undertakings and in respect of any such transactions,

arising as a result of the application of paragraph 32 of Schedule 7 may be credited to (where (a) is less than (b)), or (as the case may be) deducted from (where (a) is greater than (b)), the consolidated general reserve.

(2) Any income and expenditure of subsidiary undertakings and associated undertakings in a foreign currency may be translated for the purposes of the consolidated income and expenditure account at the average rates of exchange prevailing during the financial year.

SCHEDULE 5

Regulation 5

NOTES TO ANNUAL ACCOUNTS

Accounting policies

1.—(1) There shall be stated the accounting policies (including such policies with respect to the depreciation and diminution in value of the assets of the society) adopted by the society in determining the amounts to be included in respect of items shown in the income and expenditure account, the balance sheet and the statement of the source and application of funds.

(2) It shall be stated whether the accounts have been prepared in accordance with applicable accounting standards within the meaning of section 256(1) of the Companies Act 1985⁽¹⁴⁾; particulars of any material departure from these standards and the reasons for such departure shall be given.

Sums denominated in foreign currencies

2. Where any sums originally denominated in a foreign currency have been brought into account under any items shown in the balance sheet, income and expenditure account or statement of source

⁽¹⁴⁾ 1985 c. 6; section 256 was inserted by section 19 of the Companies Act 1989 (c. 40).

and application of funds formats, the basis on which those sums have been translated into sterling shall be stated.

Employees

3.—(1) The following information shall be given with respect to the employees of the society—

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

(2) The average number required by sub-paragraph (1)(a) or (b) shall be determined by dividing the relevant annual number by the number of complete calendar months in the financial year, and that relevant annual number shall be determined by ascertaining for each complete calendar month in the financial year—

- (a) for the purposes of sub-paragraph (1)(a), the number of persons employed under contracts of service by the society in that month (whether throughout the month or not); and
- (b) for the purposes of sub-paragraph (1)(b), the number of persons in each such category of persons so employed,

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

(3) In respect of all persons employed by the society during the financial year who are taken into account in determining the relevant annual number for the purposes of subparagraph (1)(a) there shall 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 society on their behalf; and
- (c) other pension costs so incurred,

save in so far as those amounts or any of them are stated in the income and expenditure account.

(4) The categories of persons employed by the society by reference to which the number required to be disclosed by sub-paragraph (1)(b) is to be determined shall be such as to assist the assessment of the manner in which the society's activities are organised.

Aggregate amount of directors' remuneration etc.

4.—(1) The following shall be shown, namely—

- (a) the aggregate amount of salary and fees and sums paid by way of expenses allowance (so far as they are chargeable to United Kingdom tax) paid to or receivable by directors in respect of qualifying services;
- (b) the aggregate amount of bonuses paid to or receivable by directors in respect of qualifying services;
- (c) the aggregate amount of the estimated money value of any other benefits paid to or receivable by directors in respect of qualifying services otherwise than in cash;
- (d) the aggregate of the amount of gains made by directors on the exercise of share options;
- (e) the aggregate of the following, namely—
 - (i) the amount of money paid to or receivable by directors under long-term incentive schemes in respect of qualifying services; and
 - (ii) the net value of assets (other than money and share options) received or receivable by directors under such schemes in respect of such services;

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- (f) the aggregate value of any society contributions paid, or treated as paid, to a pension scheme in respect of directors' qualifying services, being contributions by reference to which the rate or amount of any money purchase benefits that may become payable will be calculated;
- (g) the aggregate amount of the increase during the financial year in the value of any accrued pension or accrued lump sum comprising defined benefits payable in respect of any qualifying services performed by directors during the financial year; and
- (h) the total of the aggregate amounts in sub-paragraphs (a) to (g).

(2) In this paragraph—

“accrued pension” and “accrued lump sum”, in relation to any pension scheme and any director, mean respectively the amount of the annual pension, and the amount of the lump sum, which would be payable under the scheme on his attaining normal pension age if—

- (a) he had left the society's service at the end of the financial year,
- (b) there were no increase in the general level of prices in the United Kingdom during the period beginning with the end of that year and ending with his attaining that age;
- (c) no question arose of any commutation of the pension or inverse commutation of the lump sum; and
- (d) any amounts attributable to voluntary contributions paid by the director to the scheme, and any money purchase benefits which would be payable under the scheme, were disregarded;

“amount”, in relation to a gain made on the exercise of a share option means the difference between—

- (a) the market price of the shares on the day on which the option was exercised, and
- (b) the price actually paid for the shares;

“defined benefits” means retirement benefits payable under a pension scheme which are not money purchase benefits;

“defined benefit scheme”, in relation to a director, means a pension scheme which is not a money purchase scheme;

“long term incentive scheme” means any agreement or arrangement under which money or other assets may become receivable by a director and which includes one or more qualifying conditions with respect to service or performance which cannot be fulfilled within a single financial year; and for this purpose the following shall be disregarded, namely—

- (a) bonuses the amount of which falls to be determined by reference to service or performance within a single financial year;
- (b) compensation for loss of office, payments for breach of contract and other termination payments; and
- (c) retirement benefits;

“money purchase benefits”, in relation to a director, means retirement benefits payable under a pension scheme the rate or amount of which is calculated by reference to payments made, or treated as made, by the director or by any other person in respect of the director and which are not average salary benefits;

“money purchase scheme”, in relation to a director, means a pension scheme under which all of the benefits that may become payable to or in respect of the director are money purchase benefits;

“normal pension age”, in relation to any pension scheme and any director, means the age at which the director will first become entitled to receive a full pension on retirement of any

amount determined without reduction to take account of its payment before a later age (but disregarding any entitlement to pension upon retirement in the event of illness, incapacity or redundancy);

“net value”, in relation to any assets received or receivable by a director, means value after deducting any money paid or other value given by the director in respect of those assets;

“qualifying services”, in relation to any person, means his services as a director of the society, and his services while director of the society—

- (a) as director of any of its connected undertakings; or
- (b) otherwise in connection with the management of the affairs of the society or any of its connected undertakings;

“shares” means shares (whether allotted or not) in any connected undertaking of the society, and includes a share warrant as defined by section 188(1) of the Companies Act 1985⁽¹⁵⁾;

“share option” means a right to acquire shares;

“society contributions”, in relation to a pension scheme and a director means any payments (including insurance premiums) made, or treated as made, to the scheme in respect of the director by a person other than the director;

“value”, in relation to shares received or receivable by a director on any day, means the market price of the shares on that day.

(3) For the purpose of this paragraph amounts paid or receivable or share options granted in respect of a person’s accepting office as a director shall be treated as amounts paid or receivable or share options granted in respect of his services as a director.

(4) Where a pension scheme provides for any benefits that may become payable to or in respect of any director to be whichever are the greater of—

- (a) money purchase benefits as determined by or under the scheme; and
- (b) defined benefits as so determined,

the society may assume for the purposes of this paragraph that those benefits will be money purchase benefits, or defined benefits, according to whichever appears more likely at the end of the financial year.

(5) For the purpose of determining whether a pension scheme is a money purchase or defined benefit scheme, any death in service benefits provided for by the scheme shall be disregarded.

Details of individual directors' remuneration etc.

5.—(1) There shall be shown in respect of each director by name so much of each of the relevant aggregates as is attributable to that director.

(2) In this paragraph “relevant aggregates” means the aggregates shown under paragraph 4(1) (a) to (h).

(3) Sub-paragraphs (2) to (5) of paragraph 4 apply for the purposes of this paragraph as they apply for the purposes of that paragraph.

Excess retirement benefits of directors and past directors

6.—(1) Subject to sub-paragraph (2), there shall be shown the aggregate amount of—

- (a) so much of retirement benefits paid to or receivable by directors under pension schemes; and

⁽¹⁵⁾ 1985 c. 6; section 188 was substituted by section 130(7) of and paragraph 6 of Schedule 7 to the Companies Act 1989 (c. 40).

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(b) so much of retirement benefits paid to or receivable by past directors under such schemes, as (in each case) is in excess of the retirement benefits to which they were respectively entitled on the date on which the benefits first became payable or the operative date of these Regulations for the society as described in regulation 12(6), whichever is the later.

(2) Amounts paid or receivable under a pension scheme need not be included in the aggregate amount if—

- (a) the funding of the scheme was such that the amounts were or, as the case may be, could have been paid without recourse to additional contributions; and
- (b) amounts were paid to or receivable by all pensioner members of the scheme on the same basis,

and in this sub-paragraph “pensioner member”, in relation to a pension scheme, means any person who is entitled to the present payment of retirement benefits under the scheme.

(3) In this paragraph—

- (a) references to retirement benefits include benefits otherwise than in cash; and
- (b) in relation to so much of retirement benefits as consists of a benefit otherwise than in cash, references to their amount are to the estimated money value of the benefit,

and the nature of any such benefit shall also be disclosed.

Compensation to directors for loss of office

7.—(1) There shall be shown the amount of any compensation in respect of loss of office to each director or past director by name, together with the aggregate amount of any such compensation.

(2) There shall be shown the aggregate amount of any compensation referred to in sub-paragraph (1) in respect of the preceding financial year.

(3) The amounts referred to in sub-paragraph (1) include compensation received or receivable by a director or past director for—

- (a) loss of office as director of the society, or
- (b) loss, while director of the society or on or in connection with his ceasing to be a director of it, of—
 - (i) any other office in connection with the management of the society’s affairs, or
 - (ii) any office as director or otherwise in connection with the management of the affairs of any connected undertaking of the society.

(4) References in this paragraph—

- (a) to compensation include benefits otherwise taken in cash; and
- (b) to the amount of compensation are to the estimated money value of the benefit.

(5) The nature of any such compensation shall be disclosed.

(6) In this paragraph, references to compensation for loss of office include the following, namely—

- (a) compensation in consideration for, or in connection with, a person’s retirement from office; and
- (b) where such a retirement is occasioned by a breach of the person’s contract with the society or with a subsidiary undertaking of the society—
 - (i) payments made by way of damages for the breach; or
 - (ii) payments made by way of settlement or compromise of any claim in respect of the breach.

Sums paid to third parties in respect of directors' services

8.—(1) There shall be shown the aggregate amount of any consideration paid to or receivable by third parties for making available the services of any person—

- (a) as a director of the society, or
 - (b) while director of the society—
 - (i) as director of any of its connected undertakings, or
 - (ii) otherwise in connection with the management of the affairs of the society or any of its connected undertakings.
- (a) (2) (a) The reference in sub-paragraph (1) to consideration includes benefits paid or receivable otherwise than in cash; and in relation to such consideration the reference to its amount is to the estimated money value of the benefit.
- (b) The nature of any such consideration shall be disclosed.
- (3) The reference in sub-paragraph (1) to third parties is to persons other than—
- (a) the director himself or a person connected with him or a body corporate associated with him, and
 - (b) the society or any of its connected undertakings.

Supplementary provisions regarding directors' remuneration

9.—(1) The following applies with respect to the amounts to be shown under paragraphs 4, 5, 6, 7 and 8.

- (2) The amount in each case includes all relevant sums paid by or receivable from—
- (a) the society; and
 - (b) the society's connected undertakings; and
 - (c) any other person,

except sums to be accounted for to the society or any of its connected undertakings.

(3) References to amounts paid to or receivable by a person include amounts paid to or receivable by a person connected with him or a body corporate associated with him (but not so as to require an amount to be counted twice).

10.—(1) The amounts to be shown for any financial year under paragraphs 4, 5, 6, 7 and 8 are the sums receivable in respect of that year (whenever paid) or, in the case of sums not receivable in respect of a period, the sums paid during that year.

- (2) But where—
- (a) any sums are not shown in a note to the accounts for the relevant financial year on the ground that the person receiving them is liable to account for them as mentioned in paragraph 9(2), but the liability is thereafter wholly or partly released or is not enforced within a period of 2 years; or
 - (b) any sums paid by way of expenses allowance are charged to United Kingdom income tax after the end of the relevant financial year,

those sums shall, to the extent to which the liability is released or not enforced or they are charged as mentioned (as the case may be), be shown in a note to the first accounts in which it is practicable to show them and shall be distinguished from the amounts to be shown apart from this provision.

11. Where the chief executive of the society is not also a director of the society, he shall be deemed, for the purposes of paragraphs 4 to 10, to be a director of the society. In such circumstances

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there shall be a note in the accounts specifying that the chief executive has been so deemed to be a director.

12. Regulation 5(2)(b) shall not apply to paragraphs 4 to 11.

Interpretation of provisions regarding directors' remuneration

13.—(1) Sub-paragraphs (2) and (3) apply for the interpretation of paragraphs 4 to 11.

(2) For the purposes of paragraphs 4 and 5 a reference to a connected undertaking of the society is to an undertaking which is a connected undertaking at the time the services were rendered, and for the purposes of paragraph 7 is a reference to a connected undertaking immediately before the loss of office as director.

(3) The following definitions apply—

- (a) “pension scheme” has the meaning assigned to “retirement benefits scheme” by section 611 of the Income and Corporation Taxes Act 1988⁽¹⁶⁾;
- (b) “retirement benefits” has the meaning assigned to “relevant benefits” by section 612(1) of that Act.

(4) In paragraphs 8 and 9, references to a person being “connected” with a director, and to a director “associated with” a body corporate, shall be construed in accordance with section 70 of the Act.

Other income and expenditure items

14.—(1) In respect of interest receivable, the amount of interest derived from connected undertakings shall be shown separately from interest derived from other sources.

(2) In respect of interest payable, the amount payable to connected undertakings shall be shown separately.

(3) There shall be shown in respect of the auditors—

- (a) the amount of remuneration received or receivable by them in their capacity as such; and
- (b) the aggregate amount of remuneration, if any, received or receivable by the auditors or any associate of the auditors in respect of services other than those of the auditors in their capacity as such supplied—
 - (i) to the society; or
 - (ii) to any associated undertaking of the society of which the society’s auditors or any associate of the society’s auditors are the auditors.

(4) Regulation 5(2)(b) shall not apply to sub-paragraph (3)(b).

(5) In sub-paragraph (3)—

- (a) “associate”, in relation to the auditors, shall be construed in accordance with paragraph 15;
- (b) “remuneration” includes sums paid in respect of expenses and the estimated money value of any other benefits received or receivable otherwise than in cash; and
- (c) “associated undertaking”, in relation to the society, means any undertaking which, in accordance with section 258 of the Companies Act 1985⁽¹⁷⁾, is a subsidiary undertaking of the society other than a subsidiary undertaking formed under the law of a country or territory outside the United Kingdom.

⁽¹⁶⁾ 1988 c. 1.

⁽¹⁷⁾ 1985 c. 6; section 258 was inserted by section 21(1) of the Companies Act 1989 (c. 40).

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- (a) (6) (a) Where any amount to be included in any of the items mentioned in sub-paragraph (b) is material, particulars shall be given of such amounts together with an explanation of their nature.
- (b) The items mentioned in sub-paragraph (a) are—
- (i) in Part I of Schedule 1, items 4(b) to (d), 5 to 8, 11, 19 and 20; and
 - (ii) in Part II of Schedule 1, items 4(b) to (e), 5 to 8, 11, 21 and 22.
- (7) There shall be shown in a note, with respect to each of the items of income mentioned below and included in the income and expenditure account formats in Schedule 1, the amount of income in respect of that item attributable to each of the geographical markets in which the society has operated during the financial year—
- (a) Item 1 in Parts I and II (Interest receivable and similar income)
 - (b) Item 4 in Parts I and II (Income from investments)
 - (c) Item 5 in Parts I and II (Fees and commissions receivable)
 - (d) Item 7 in Parts I and II (Net profit or loss on financial operations) and
 - (e) Item 8 in Parts I and II (Other operating income)
- (8) In analysing the source of any income for the purpose of sub-paragraph (7), the directors shall have regard to the manner in which the society's activities are organised.
- (9) For the purposes of sub-paragraph (7), markets which do not differ substantially from one another shall be treated as one market.
- (10) Where the directors consider that the disclosure of information required by sub-paragraph (7) would seriously prejudice the interests of the society, they need not disclose such information, but the fact that any such information has not been disclosed must be stated.
- (11) Any amounts charged to the income and expenditure account and representing costs, including interest payable, incurred during the year with respect to subordinated liabilities shall be stated.
- (12) Any amounts charged to the income and expenditure account and representing costs, including interest payable, incurred during the year with respect to subscribed capital, shall be stated.
- (13) Where management and agency services are provided by the society to third parties that fact shall be disclosed where the scale of such services is material in the context of the society's business as a whole.

Persons who are to be regarded as associates of a society's auditors

15.—(1) This paragraph applies in order to determine whether a person is to be regarded as an associate of a society's auditors in any financial year of a society in relation to which disclosure must be made by virtue of paragraph 14(3)(b).

(2) Where a society's auditors are a body corporate, each of the following shall be regarded as an associate of theirs in a relevant financial year—

- (a) any partnership in which the auditors were, at any time in the financial year, a partner;
- (b) any partnership in which a director of the auditors was, at any time in the financial year, a partner;
- (c) any body corporate which was, at any time in the financial year, in the same group as the auditors;
- (d) any body corporate which was an associated undertaking of the auditors or of a body corporate in the same group as the auditors at any time in the financial year;

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- (e) any body corporate in which any director of the auditors either alone or with any associate of the auditors was, at any time in the financial year, entitled to exercise, or control the exercise of, 20 per cent. or more of the voting rights at any general meeting and any body corporate which was, at any time in the financial year, in the same group as any such body corporate; and
 - (f) any director of the auditors.
- (3) Where a society's auditors are a partnership, each of the following shall be regarded as an associate of theirs in a relevant financial year—
- (a) any other partnership which had, at any time in the financial year, a partner in common with the auditors;
 - (b) any body corporate which was, at any time in the financial year, a partner in the auditors;
 - (c) any body corporate in which, whether alone or with any associate of the auditors, the auditors or any partner in the auditors was, at any time in the financial year, entitled to exercise, or control the exercise of, 20 per cent. or more of the voting rights at any general meeting;
 - (d) any body corporate which was, at any time in the financial year, in the same group as any such body corporate as is mentioned in sub-paragraph (b) or (c) above; and
 - (e) any partner in the auditors.
- (4) Where a society's auditor is an individual, each of the following shall be regarded as an associate of his in a relevant financial year—
- (a) any partnership in which the auditor was, at any time in the financial year, a partner; and
 - (b) any body corporate in which the auditor or any associate of his was, at any time in the financial year, entitled to exercise, or control the exercise of, 20 per cent. or more of the voting rights at any general meeting and any body corporate which was, at any time in that year, in the same group as any such body corporate.
- (5) Each of the following shall be regarded as an associate of the society's auditors in a relevant financial year whether the auditors are a body corporate, a partnership or an individual, that is to say, any person who was, at any time in that financial year, entitled to receive 20 per cent. or more of the auditors' profits and any person of whose profits the auditors were, in that financial year, entitled to receive 20 per cent. or more.
- (6) In this paragraph—
- (a) “associated undertaking”, in relation to a body corporate, means any undertaking which, in accordance with section 258 of the Companies Act 1985, is a subsidiary undertaking of the body other than a subsidiary undertaking formed under the law of a country or territory outside the United Kingdom; and
 - (b) “director” and “group” have the respective meanings given in section 53(1) of the Companies Act 1989⁽¹⁸⁾.

Taxation

16.—(1) Particulars shall be given of any special circumstances which affect liability in respect of taxation of profits, income or capital gains for the financial year or liability in respect of taxation of profits, income or capital gains for succeeding financial years.

(2) The following amounts shall be stated—

- (a) the amount of the charge for United Kingdom corporation tax;

(18) 1989 c. 40.

- (b) if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief; and
- (c) the amount of the charge for taxation imposed outside the United Kingdom on profits, income and (so far as charged to the income and expenditure account) capital gains.

(3) The amounts specified in sub-paragraph (2) shall be stated separately in respect of each of the amounts shown under items 17 and 22 in Part I of Schedule 1, and under items 17 and 24 in Part II of that Schedule.

Miscellaneous matters

17.—(1) Where any amount relating to any preceding financial years is included in any item in the income and expenditure account, the effect of that inclusion shall be stated.

(2) The effect shall be stated of any transactions that are exceptional by virtue of size or incidence although they fall within the ordinary activities of the society.

Maturity analysis

18.—(1) A society shall disclose the aggregate of each of Asset items A.3(b) and B and Liability items A, B(b) and C(b) in Parts I and II of Schedule 2, broken down into amounts repayable with remaining maturity of—

- (a) not more than three months;
- (b) more than three months but not more than one year;
- (c) more than one year but not more than five years; and
- (d) more than five years.

(2) These shall also be shown—

- (a) for Asset item B in Parts I and II of Schedule 2, loans and advances on call and at short notice; and
- (b) for Liability item A in Parts I and II of Schedule 2, shares repayable on demand.

(3) The aggregate of amounts classifiable in the balance sheet as Asset item A.4 and Liability item D in Parts I and II of Schedule 2 shall be shown on the basis of remaining maturity as follows—

- (a) not more than one year; and
- (b) more than one year.

(4) For the purposes of sub-paragraphs (1) and (2), where a loan or advance is repayable by instalments, each such instalment shall be treated as a separate amount.

Provisions for bad and doubtful debts

19.—(1) In respect of any provisions for bad and doubtful debts deducted from Asset item B in Parts I and II of Schedule 2 there shall be shown the following information, in respect of each item—

- (a) the amount of the provision as at the date of the beginning of the financial year and as at the balance sheet date respectively, showing separately—
 - (i) specific provisions for bad and doubtful debts, and
 - (ii) general provisions for bad and doubtful debts.
- (b) any amounts transferred to or from each of the provisions referred to in sub-paragraph (a) during the year, and
- (c) the source and application respectively of any amounts so transferred.

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(2) For the purposes of sub-paragraphs (1) and (2) “specific provisions” shall be any provisions determined by reference to particular loans or advances and all other provisions shall be “general provisions”.

Transferable securities

20.—(1) In respect of each of Asset items A.4 and C in Parts I and II of Schedule 2 there shall be shown the amount of transferable securities under those items, stating the amounts of those which are listed and the amount of those which are unlisted.

(2) In the case of each amount shown in respect of listed securities under sub-paragraph (1) there shall also be given the aggregate market value of the securities if it differs from the amount shown.

(3) In respect of each of Asset items A.4 and C in Parts I and II of Schedule 2 there shall be given the amounts of—

- (a) transferable securities included under those items and which are held as financial fixed assets, and
- (b) those transferable securities which are not so held,

together with the criteria used by the directors of the society to distinguish between those held and those not held as financial fixed assets.

Fixed assets

21.—(1) In respect of any fixed assets included in any Asset item in the balance sheet the following information shall be given—

- (a) the appropriate amounts in respect of those assets as at the date of the beginning of the financial year and as at the balance sheet date respectively; and
- (b) the effect on any amount included in the item, in respect of those assets, of—
 - (i) any determination during that year of the value to be ascribed to any of those assets on any basis mentioned in paragraph 28 of Schedule 7;
 - (ii) acquisitions during that year of any fixed assets;
 - (iii) disposals during that year of any fixed assets; and
 - (iv) any transfers of fixed assets to and from the item during that year.

(2) The reference in sub-paragraph (1)(a) to the appropriate amounts in respect of any fixed assets (included in an Asset item) as at any date there mentioned is a reference to amounts representing the aggregate amounts determined, as at that date, in respect of fixed assets falling to be included under that item on either of the following bases, that is to say—

- (a) on the basis of cost (determined in accordance with paragraphs 22 and 23 of Schedule 7), or
- (b) on any basis mentioned in paragraph 28 of Schedule 7,

(leaving out of account in either case any provisions for depreciation or diminution in value).

- (3) In respect of any fixed assets included in any Asset item in the balance sheet—
 - (a) the cumulative amount of provisions for depreciation or diminution in value of those assets included under that item as at each date mentioned in sub-paragraph (1)(a),
 - (b) the amount of any such provisions made in respect of the financial year,
 - (c) the amount of any adjustments made in respect of any such provisions during that year in consequence of the disposal of any of those assets, and
 - (d) the amount of any other adjustments made in respect of any such provisions during that year,

shall be stated.

(4) Where any fixed assets of the society (other than listed investments) are included under any item shown in the society's balance sheet at an amount determined on any basis mentioned in paragraph 28 of Schedule 7 the following information shall be given—

- (a) the years (so far as they are known to the directors) in which the assets were severally valued and the several values; and
- (b) in the case of assets valued during the financial year, the names of the persons who valued them, or particulars of their qualifications for doing so, and, whichever is given, the basis of valuation used.

(5) In relation to any amount which is or would but for regulation 3(5) be shown in respect of the item "land and buildings" in the balance sheet there shall be stated—

- (a) how much of that amount is ascribable to land of freehold tenure and how much to land of leasehold tenure;
- (b) how much of the amount ascribable to land of leasehold tenure is ascribable to land held on long lease and how much to land held on short lease; and
- (c) how much of that amount is ascribable to land and buildings occupied by the society for its own activities.

(6) In any case where any goodwill which has been acquired is shown or included as an asset in the balance sheet the period chosen for writing off the consideration for that goodwill and the reasons for choosing that period shall be disclosed.

Reserves and provisions

22.—(1) Where any amount is transferred—

- (a) to or from any reserves (including the revaluation reserve),
- (b) to any provisions for liabilities and charges, or
- (c) from any provisions for liabilities and charges otherwise than for the purpose for which the provisions were established,

and the reserves or provisions are shown or would but for regulation 3(5) be shown as separate items in the society's balance sheet, the information required by the following sub-paragraph shall be given in respect of the aggregate of reserves or provisions included in items in the balance sheet to which any such transfer relates.

(2) The information required by this sub-paragraph is—

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

(3) Particulars shall be given of each provision included in the item "Provisions for liabilities and charges" in the balance sheet.

(4) The amount of the provision for deferred taxation shall be stated separately from the amount of any provision for other taxation.

Subordinated liabilities

23.—(1) The following information shall be disclosed in relation to any borrowing included in the balance sheet as subordinated liabilities and which exceeds 10 per cent. of the total for that item—

- (a) its amount,

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- (b) the currency in which it is denominated,
 - (c) the rate of interest and the maturity date, or the fact that it is a borrowing for an indeterminate period,
 - (d) the circumstances in which early repayment may be demanded,
 - (e) the terms of the subordination, and
 - (f) the existence of any provisions whereby it may be converted into some other form of liability, and the terms of such provisions.
- (2) There shall also be stated the general terms of any other borrowings included within subordinated liabilities.

Subscribed capital

24.—(1) Where subscribed capital of more than one class has been allotted, the accounting par value of each class allotted shall be disclosed.

(2) The following information shall be disclosed in relation to any class of subscribed capital included in the balance sheet and which exceeds 10 per cent. of the total for that item—

- (a) its amount,
- (b) the currency in which it is denominated,
- (c) the rate of interest,
- (d) the fact that it is borrowing for an indeterminate period, and
- (e) the existence of any provisions whereby it may be converted into some other form of liability, and the terms of such provisions.

There shall also be stated the general terms of any other amounts included within subscribed capital.

(3) If the society has allotted any subscribed capital during the year, the following information shall be given—

- (a) the classes of subscribed capital allotted, and
- (b) as respects each class of subscribed capital the consideration received by the society for the allotment.

Fixed cumulative interest

25. If any fixed cumulative interest on the society's subscribed capital is in arrears there shall be stated—

- (a) the amount of the arrears, and
- (b) the period for which the interest or, if there is more than one class of subscribed capital, each class of interest is in arrears.

Details of assets charged

26. In relation to each Liability item and each Memorandum item in the balance sheet formats there shall be disclosed—

- (a) the aggregate amount of any assets which have been charged to secure any liability or potential liability included thereunder,
- (b) the aggregate amount of the liabilities or potential liabilities so secured, and
- (c) an indication of the nature of the security given.

27. Particulars shall be given of any charge on the assets of the society to secure the liabilities of any other person, including, where practicable, the amount secured.

Guarantees and other financial commitments

28.—(1) There shall be stated, where practicable, the aggregate amount or estimated amount of contracts for capital expenditure, so far as not provided for in the balance sheet.

(2) Particulars shall be given of—

- (a) any pension commitments included under any provision shown in the balance sheet, and
- (b) any such commitment for which no such provision has been made,

and, where any such commitment relates wholly or partly to pensions payable to past directors of the society separate particulars shall be given of that commitment so far as it relates to such pensions.

(3) Particulars shall also be given of any other financial commitments, including contingent liabilities, which have not been provided for in the balance sheet, have not been included in the memorandum items in the balance sheet and are relevant to assessing the society's state of affairs at the end of the financial year.

(4) Commitments within any of the preceding sub-paragraphs undertaken on behalf of or for the benefit of any subsidiary undertakings of the society shall be stated separately from the other commitments within that sub-paragraph.

(5) No disclosure need be made under sub-paragraph (3) or (4) to the extent that an amount with respect to a commitment has been included in the Memorandum items in the balance sheet.

(6) There shall be disclosed the nature and amount of any contingent liabilities and commitments included in Memorandum items A and B in Parts I and II of Schedule 2.

Memorandum items: subsidiary undertakings

29.—(1) With respect to contingent liabilities required to be included under Memorandum item A in Part I of Schedule 2, there shall be stated the amount of such contingent liabilities incurred on behalf of or for the benefit of any subsidiary undertakings.

(2) With respect to commitments required to be included under Memorandum item B in Part I of Schedule 2, there shall be stated the amount of such commitments undertaken on behalf of or for the benefit of any subsidiary undertakings.

Leasing transactions

30. The aggregate amount of all assets (other than land) leased to other persons shall be disclosed, broken down so as to show the aggregate amount included in each relevant balance sheet item.

Assets and liabilities denominated in a currency other than sterling

31.—(1) The aggregate amount, in sterling, of all assets denominated in a currency other than sterling, together with the aggregate amount, in sterling, of all liabilities so denominated, shall be disclosed.

(2) For the purposes of this paragraph, an appropriate rate of exchange prevailing at the date of the balance sheet shall be used.

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Sundry assets and liabilities, prepayments and accrued income and accruals and deferred income

32. Where any amount to be included under any of Asset items F and G and Liability items E(c) and F in Parts I and II of Schedule 2 is material, particulars shall be given of each type of asset or liability included therein, including an explanation of the nature of the asset or liability and the amount included with respect to assets or liabilities of that type.

Unmatured forward transactions

33. There shall be disclosed with respect to forward transactions unmaturing at the date of the balance sheet the categories of such transactions, by reference to an appropriate system of classification.

Other miscellaneous matters

34.—(1) Subject to the following sub-paragraph, in respect of every item stated in a note to the annual accounts the corresponding amount for the financial year immediately preceding that to which the accounts relate shall also be stated and where it is not reasonable to compare the corresponding amount, it shall be adjusted and particulars of the adjustment and the reasons for it shall be given.

(2) Sub-paragraph (1) does not apply in relation to any amounts stated by virtue of any of the following provisions—

- (a) paragraphs 5(1), 7(1) and (2), 19, 21(1) to (4)(b), 22(1) and (2) and 35 of this Schedule,
- (b) paragraph 10 of Schedule 4, and
- (c) paragraphs 2, 6(3), 10, 12(4) and (5), 14(3) and (4) and 17(3) and (4) of Schedule 6.

(3) Particulars shall be given of any case where the cost of any asset is for the first time determined under paragraph 25 of Schedule 7.

Directors' loans and transactions

35.—(1) This paragraph applies, subject to sub-paragraph (5), in relation to—

- (a) loans from and other transactions and arrangements with the society described in section 65 of the Act (which restricts loans to and other transactions and arrangements with directors and persons connected with them), other than those to which section 65(5) and (6) of the Act applies, and
- (b) in the case of a group accounts society, loans from and other transactions and arrangements with a subsidiary undertaking of the society to which sub-paragraph (a) would apply were the society rather than the subsidiary undertaking a party to them.

(2) The notes to the annual accounts shall contain a statement, in relation to such loans, transactions, and arrangements showing as follows—

- (a) the aggregate amounts outstanding under them at the end of the financial year, and
- (b) the numbers of persons for whom such loans, transactions and arrangements were made.

(3) The notes to the annual accounts shall, in relation to any loan or other transaction or arrangement subsisting during or at the end of the financial year, make the following disclosures—

- (a) where a copy of it or a memorandum of its terms is included in the register maintained under section 68 of the Act (which requires the maintenance of such a register), the existence of the register and the availability of requisite particulars from it for inspection shall be disclosed;

(b) where it comes within sub-paragraph (1)(b), its particulars shall be disclosed unless it was one which would, had the subsidiary undertakings of the society formed part of the society, have been excepted from the obligations imposed by section 68 of the Act.

(4) Regulation 5(2)(b) shall not apply to this paragraph.

(5) This paragraph applies in relation to loans to, and other transactions and arrangements with, a person connected with a director of the society where the society (or in the case of a subsidiary undertaking incorporated in the United Kingdom, the subsidiary undertaking) has notice of the connection between that director and that person.

SCHEDULE 6

Regulation 6

NOTES TO ANNUAL ACCOUNTS: INFORMATION IN RESPECT OF HOLDINGS IN UNDERTAKINGS

PART I

SOCIETIES NOT REQUIRED TO PREPARE CONSOLIDATED ACCOUNTS

Subsidiary undertakings

1.—(1) The following information shall be given where at the end of the financial year the society has subsidiary undertakings but is not required to prepare consolidated accounts.

(2) The name of each subsidiary undertaking shall be stated.

(3) There shall be stated with respect to each subsidiary undertaking—

- (a) if it is incorporated outside the United Kingdom, the country in which it is incorporated;
- (b) if it is unincorporated, the address of its principal place of business.

(4) The specific reason why under regulation 4 each subsidiary undertaking is not required to be included in consolidated accounts shall be stated.

Holdings in subsidiary undertakings

2.—(1) There shall be stated in relation to shares of each class held by the society in a subsidiary undertaking—

- (a) the identity of the class, and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

(2) The shares held by or on behalf of the society itself shall be distinguished from those attributed to the society which are held by or on behalf of a subsidiary undertaking.

Financial information about subsidiary undertakings

3.—(1) There shall be disclosed with respect to each subsidiary undertaking—

- (a) the aggregate amount of its capital and reserves as at the end of its relevant financial year, and
- (b) its profit or loss for that year.

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(2) The information referred to in sub-paragraph (1) need not be given if the society's investment in the subsidiary undertaking is included in the society's accounts by way of the equity method of valuation or if—

- (a) the subsidiary undertaking is not required by any provision of the Companies Act 1985⁽¹⁹⁾ or the Companies (Northern Ireland) Order 1986⁽²⁰⁾ to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
- (b) the society's holding is less than 50 per cent. of the nominal value of the shares in the undertaking.

(3) Information otherwise required by this paragraph need not be given if it is not material for the purpose of giving a true and fair view for the society of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

(4) For the purposes of this paragraph the “relevant financial year” of a subsidiary undertaking is—

- (a) if its financial year ends with that of the society, that year, and
- (b) if not, its financial year ending last before the end of the society's financial year.

Financial years of subsidiary undertakings

4. Where—

- (a) disclosure is made under paragraph 3(1) with respect to a subsidiary undertaking, and
- (b) that undertaking's financial year does not end with that of the society,

there shall be stated in relation to that undertaking the date on which its last financial year ended (last before the end of the society's financial year).

Significant holdings in undertakings other than subsidiary undertakings

5.—(1) The information required by paragraphs 6 and 7 shall be given where at the end of the financial year the society has a significant holding in an undertaking which is not a subsidiary undertaking of the society.

(2) A holding is significant for this purpose if—

- (a) it amounts to 20 per cent. or more of the nominal value of the shares in the undertaking, or
- (b) the amount of the holding (as stated or included in the society's accounts) exceeds one-fifth of the amount (as so stated) of the society's assets.

6.—(1) The name of the undertaking shall be stated.

(2) There shall be stated—

- (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated, and
- (b) if it is unincorporated, the address of its principal place of business.

(3) There shall also be stated—

- (a) the identity of each class of shares in the undertaking held by the society, and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

⁽¹⁹⁾ 1985 c. 6.

⁽²⁰⁾ S.I. 1986/1032 (N.I.6).

7.—(1) There shall also be stated—

- (a) the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and
- (b) its profit or loss for that year.

(2) That information need not be given if the investment of the society in all undertakings in which it has a significant holding is shown, in aggregate, in the notes to the accounts by way of the equity method of valuation.

(3) That information need not be given in respect of an undertaking if—

- (a) the undertaking is not required by and provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
- (b) the society's holding is less than 50 per cent. of the nominal value of shares in the undertaking.

(4) Information otherwise required by this paragraph need not be given if it is not material for the purpose of giving a true and fair view for the society of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

(5) For the purposes of this paragraph the “relevant financial year” of an undertaking is—

- (a) if its financial year ends with that of the society, that year, and
- (b) if not, its financial year ending last before the end of the society's financial year.

Construction of references to shares held by society

8.—(1) References in this Part of this Schedule to shares held by a society shall be construed as follows.

(2) For the purposes of paragraphs 2 and 3—

- (a) there shall be attributed to the society any shares held by a subsidiary undertaking, or by a person acting on behalf of the society or a subsidiary undertaking; but
- (b) there shall be treated as not held by the society any shares held on behalf of a person other than the society or a subsidiary undertaking.

(3) For the purposes of paragraphs 5 to 7—

- (a) there shall be attributed to the society shares held on its behalf by any person; but
- (b) there shall be treated as not held by a society shares held on behalf of a person other than the society.

(4) For the purposes of paragraphs 2 to 7, shares held by way of security shall be treated as held by the person providing the security—

- (a) where apart from the right to exercise them for the purposes of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in accordance with his instructions, and
- (b) where the shares are held in connection with the granting of loans as part of normal business activities and apart from the right to exercise them for the purpose of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in his interests.

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PART II

SOCIETIES REQUIRED TO PREPARE CONSOLIDATED ACCOUNTS

Subsidiary undertakings

9.—(1) The following information shall be given with respect to the undertakings which are subsidiary undertakings of the society at the end of the financial year.

(2) The name of each undertaking shall be stated.

(3) There shall be stated—

- (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated,
- (b) if it is unincorporated, the address of its principal place of business.

(4) It shall be stated whether the subsidiary undertaking is included in the consolidation and, if it is not, the reason for excluding it from consolidation shall be given.

(5) It shall be stated with respect to each subsidiary undertaking by virtue of which of the conditions specified in section 258(2) of the Companies Act 1985(21) it is a subsidiary undertaking of the parent society.

(6) That information need not be given if the relevant condition is that specified in subsection (2) (a) of that section and the immediate parent society holds the same proportion of the shares in the undertaking as it holds voting rights.

Holdings in subsidiary undertakings

10.—(1) The following information shall be given with respect to the shares of a subsidiary undertaking held—

- (a) by the society, and
- (b) by the group,

and the information under sub-paragraphs (a) and (b) shall (if different) be shown separately.

(2) There shall be stated—

- (a) the identity of each class of shares held, and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

Financial information about subsidiary undertakings not included in the consolidation

11.—(1) There shall be shown with respect to each subsidiary undertaking not included in the consolidation—

- (a) the aggregate amount of its capital and reserves as at the end of its relevant financial year, and
- (b) its profit or loss for that year.

(2) The information referred to in sub-paragraph (1) need not be given if the group's investment in the subsidiary undertaking is included in the accounts by way of the equity method of valuation or if—

(21) 1985 c. 6; section 258 was inserted by sections 1 and 21 of the Companies Act 1989 (c. 40). The definition of "subsidiary undertaking" in section 258 is applied to building societies by section 119(1) of the Building Societies Act 1986 as amended by S.I. 1991/1729.

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- (a) the subsidiary undertaking is not required by and provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
 - (b) the holding of the group is less than 50 per cent. of the nominal value of the shares in the subsidiary undertaking.
- (3) Information otherwise required by this paragraph need not be given if it is not material for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.
- (4) For the purpose of this paragraph the “relevant financial year” of a subsidiary undertaking is—
- (a) if its financial year ends with that of the society, that year, and
 - (b) if not, its financial year ending last before the end of the society’s financial year.

Associated undertakings

12.—(1) The following information shall be given where an undertaking included in the consolidation has an interest in an associated undertaking.

- (2) The name of the associated undertaking shall be stated.
- (3) There shall be stated—
 - (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated;
 - (b) if it is unincorporated, the address of its principal place of business.
- (4) The following information shall be given with respect to the shares of the undertaking held—
 - (a) by the society, and
 - (b) by the group,

and the information under sub-paragraphs (a) and (b) shall be given separately.

- (5) There shall be stated—
 - (a) the identity of each class of shares held, and
 - (b) the proportion of the nominal value of the shares of that class represented by those shares.
- (6) The information required by this paragraph shall be given notwithstanding that regulation 4(12) applies in relation to the accounts themselves.

Other significant holdings of society or group

13.—(1) The information required by paragraphs 14 and 15 shall be given where at the end of the financial year the society has a significant holding in an undertaking which is not one of its subsidiary undertakings and does not fall within paragraph 12 (associated undertakings).

- (2) A holding is significant for this purpose if—
 - (a) it amounts to 20 per cent. or more of the nominal value of the shares in the undertaking; or
 - (b) the amount of the holding (as stated or included in the society’s individual accounts) exceeds one-fifth of the amount of its assets (as so stated).

14.—(1) The name of the undertaking shall be stated.

- (2) There shall be stated—
 - (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated;

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- (b) if it is unincorporated, the address of its principal place of business.
- (3) The following information shall be given with respect to the shares of the undertaking held by the society.
- (4) There shall be stated—
 - (a) the identity of each class of shares held, and
 - (b) the proportion of the nominal value of the shares of that class represented by those shares.

15.—(1) There shall also be stated—

- (a) the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and
- (b) its profits or loss for that year.
- (2) That information need not be given in respect of an undertaking if—
 - (a) the undertaking is not required by any provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
 - (b) the society's holding is less than 50 per cent. of the nominal value of the shares in the undertaking.
- (3) Information otherwise required by this paragraph need not be given if it is not material for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.
- (4) For the purposes of this paragraph the “relevant financial year” of an undertaking is—
 - (a) if its financial year ends on the same date as that of the society, that year, and
 - (b) if not, its financial year ending last before the end of the society's financial year.

16.—(1) The information required by paragraphs 17 and 18 shall be given where at the end of the financial year the group has a significant holding in an undertaking which is not a subsidiary undertaking of the society and does not fall within paragraph 12 (associated undertakings).

- (2) A holding is significant for this purpose if—
 - (a) it amounts to 20 per cent. or more of the nominal value of the shares in the undertaking, or
 - (b) the amount of the holding (as stated or included in the group accounts) exceeds one-fifth of the amount of the group's assets (as so stated).

17.—(1) The name of the undertaking shall be stated.

- (2) There shall be stated—
 - (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated;
 - (b) if it is unincorporated, the address of its principal place of business.
- (3) The following information shall be given with respect to the shares of the undertaking held by the group.
- (4) There shall be stated—
 - (a) the identity of each class of shares held, and
 - (b) the proportion of the nominal value of the shares of that class represented by those shares.

18.—(1) There shall also be stated—

- (a) the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and
 - (b) its profit or loss for that year.
- (2) That information need not be given if—
- (a) the undertaking is not required by any provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
 - (b) the holding of the group is less than 50 per cent. of the nominal value of the shares in the undertaking.
- (3) Information otherwise required by this paragraph need not be given if its is not material for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.
- (4) For the purpose of this paragraph the “relevant financial year” of an undertaking is—
- (a) if its financial year ends with that of the society, that year, and
 - (b) if not, its financial year ending last before the end of the society’s financial year.

Construction of references to shares held by society or group

19.—(1) References in this Part of this Schedule to shares held by the society or the group shall be construed as follows.

- (2) For the purposes of paragraphs 10, 12(4) and (5) and 13 to 15—
- (a) there shall be attributed to the society shares held on its behalf by any person; but
 - (b) there shall be treated as not held by the society shares held on behalf of a person other than the society.
- (3) References to shares held by the group are to any shares held by or on behalf of the society or any of its subsidiary undertakings; but there shall be treated as not held by the group any shares held on behalf of a person other than the society or any of its subsidiary undertakings.
- (4) Shares held by way of security shall be treated as held by the person providing the security—
- (a) where apart from the right to exercise them for the purpose of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in accordance with his instructions, and
 - (b) where the shares are held in connection with the granting of loans as part of normal business activities and apart from the right to exercise them for the purpose of preserving the value of security, or of realising it, the rights attached to the shares are exercisable only in his interests.

PART III

SUPPLEMENTARY PROVISIONS

20. The information required by paragraphs 6, 14 and 17 of this Schedule need not be given if it is not material for the purpose of giving a true and fair view for the society or for the society and its subsidiary undertakings, as a whole, as appropriate, of the matters set out in subsections (2), (3) and (4) of section 73 of the Act.

SCHEDULE 7

Regulation 7

ACCOUNTING PRINCIPLES AND RULES

PART I

ACCOUNTING PRINCIPLES

1. Subject to paragraph 7, the amounts to be included in respect of all items shown in a society's annual accounts shall be determined in accordance with the principles set out in this Part of this Schedule.

2. The society shall be presumed to be carrying on business as a going concern, and so, where group accounts are prepared, shall the society and its subsidiary undertakings.

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

4.—(1) The amount of any item shall be determined on a prudent basis, and in particular—

(a) only profits realised at the date of the balance sheet shall be included in the income and expenditure account; and

(b) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate or a previous financial year shall be taken into account, including those which only become apparent between the balance sheet date and the relevant date.

(2) For the purposes of sub-paragraph (1), the relevant date is the date of signature of the balance sheet of the society on behalf of the board of directors under section 80 of the Act (signing of balance sheet and of documents).

5. Except so far as these Regulations otherwise specify, income and charges relating to the financial year to which the accounts relate shall be taken into account without regard to the date of receipt or payment.

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

PART II

DEPARTURE FROM ACCOUNTING PRINCIPLES

7. If it appears to the directors of a society that there are special reasons for departing from any of the principles stated in Part I in preparing annual accounts in respect of any financial year, they may do so, but particulars of the departure, the reasons for it, and its effect shall be given in a note to the annual accounts.

PART III

FIXED ASSETS

General rules

8.—(1) Subject to any provision for depreciation or diminution in value made in accordance with paragraph 9 or 10, the amount to be included in respect of any fixed asset shall be its cost unless it is valued in accordance with paragraph 28.

- (a) (2) (a) Assets included in items D and E in Parts I and II of Schedule 2 shall be valued as fixed assets.
- (b) Other assets falling to be included in the balance sheet shall be valued as fixed assets where they are intended for use on a continuing basis in the normal course of the activities of the society or of the society and its subsidiary undertakings.

9. In the case of any fixed asset which has a limited useful economic life, the amount of—

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

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

10.—(1) Where a fixed asset investment of a description falling to be included under Asset item C of Parts I and II of Schedule 2, or any liquid asset held as a financial fixed asset, has diminished in value, provisions for diminution in value may be made in respect of it, and the amount to be included in respect of it may be reduced accordingly.

(2) Any such provisions as are mentioned in sub-paragraph (1) and which are not shown in the income and expenditure accounts shall be disclosed, either separately or in aggregate, in a note to the accounts, analysed according to balance sheet category.

(3) Provisions for diminution in value shall be made in respect of any fixed asset which has diminished in value if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it shall be reduced accordingly, and any such provisions which are not shown in the income and expenditure accounts shall be disclosed, either separately or in aggregate, in a note to the accounts, analysed according to balance sheet category.

(4) Where the reasons for which any provision in respect of fixed assets (whether or not it is one to which sub-paragraph (1) or (3) applies) was made have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary; and any amounts written back in accordance with this sub-paragraph which are not shown in the income and expenditure accounts shall be disclosed (either separately or in aggregate) in a note to the accounts.

Development costs

11.—(1) Notwithstanding that amounts representing “development costs” may be included under Asset item D in Parts I and II of Schedule 2, an amount may only be included in a society's balance sheet in respect of development costs in accordance with generally accepted accounting principles.

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

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

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

Goodwill

12.—(1) The application of paragraphs 8 to 10 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following provisions of this paragraph.

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

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

Financial fixed assets

13.—(1) Debt securities including securities held as financial fixed assets shall be included in the balance sheet at an amount equal to their maturity value plus any premium, or less any discount, on their purchase, subject to the following provisions of this paragraph.

(2) The amount included in the balance sheet with respect to such a security as is mentioned in sub-paragraph (1) purchased at a premium shall be reduced each financial year on a systematic basis so as to write the premium off over the period to the maturity date of the security, and the amounts written off shall be charged to the income and expenditure account for the relevant financial years.

(3) The amount included in the balance sheet with respect to such a security purchased at a discount shall be increased each financial year on a systematic basis so as to extinguish the discount over the period to the maturity date of the security, and the amounts by which the amount is increased shall be credited to the income and expenditure account for the relevant financial years.

(4) The notes to the accounts shall disclose the amounts of any unamortised premium or discount not extinguished which are included in the balance sheet by virtue of sub-paragraph (1).

(5) For the purposes of this paragraph, “premium” means any excess of the amount paid for a security over its maturity value and “discount” means any deficit of the amount paid for a security over its maturity value.

PART IV

CURRENT ASSETS

14. The amount to be included in respect of Asset items A.3, A.4, B and C in Parts I and II of Schedule 2 shall be, subject to paragraphs 15 and 16, their cost.

15.—(1) If the net realisable value of any current asset is lower than its cost the amount to be included in respect of that asset shall be the net realisable value.

(2) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (1) have ceased to apply to any extent, that provision shall be written back to the extent that it is no longer necessary.

(16)

(1) Subject to paragraph 15, the amount to be included in the balance sheet in respect of transferable securities not held as financial fixed assets may be the higher of their cost or their market value at the balance sheet date.

(2) The difference between the cost of any securities included in the balance sheet at a valuation under sub-paragraph (1) and their market value shall be shown (in aggregate) in the notes to the accounts.

PART V

OTHER ACCOUNTING RULES

General rules

17.—(1) Without prejudice to paragraph 3(6)(c) of Part III of Schedule 2, amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing as the case may be liabilities or expenditure, or vice versa.

(2) Charges required to be included in items 12(a) and 12(b) in Parts I and II of Schedule 1 may, however, be set off against income required to be included in items 13(a) and 13(b) of Parts I and II of that Schedule and the resulting figure shown as a single item.

(3) Charges required to be included in item 14 in Parts I and II of Schedule 1 may also be set off against income required to be included in item 15 in Parts I and II of Schedule 1 and the resulting figure shown as a single item.

18.—(1) Assets shall be shown under the relevant balance sheet headings even where the society has pledged them as security for its own liabilities or for those of third parties, or has otherwise assigned them as security to third parties.

(2) A society shall not include in its balance sheet assets pledged or otherwise assigned to it as security, unless such assets are in the form of cash in the hands of the society.

19. Preliminary expenses, expenses of and commission on any issue of subscribed capital and costs of research shall not be treated as assets in a society's balance sheet.

20. Assets acquired in the name of and on behalf of third parties shall not be shown in the balance sheet.

Excess of money owed over value received as an asset item

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

(2) Where any such amount is so treated—

- (a) it shall be written off by reasonable amounts each year and must be completely written off before repayment of the debt; and
- (b) if the current amount is not shown as a separate item in the society's balance sheet it must be disclosed in a note to the accounts.

Determination of cost

22.—(1) The cost of an asset shall be determined by adding to the actual price paid any expenses incidental to its acquisition.

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

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

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

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(b) interest on capital borrowed to finance the construction of that asset, to the extent that it accrues in respect of the period of construction, provided, however, in a case within sub-paragraph (b), that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

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

(2) Those methods are—

- (a) the method known as “first in, first out” (FIFO),
- (b) the method known as “last in, first out” (LIFO),
- (c) a weighted average price, and
- (d) any other method similar to any of the methods mentioned above.

(3) Where in the case of any society—

- (a) the cost of assets falling to be included under any item shown in the society’s balance sheet has been determined by the application of any method permitted by this paragraph, and
- (b) the amount shown in respect of that item differs materially from the relevant alternative amount given below in this paragraph,

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

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

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

(6) For the purposes of this paragraph, assets of any description shall be regarded as fungible if assets of that description are substantially indistinguishable one from another.

24. To the extent that debt securities included in a society’s balance sheet include assets valued at cost, the method of arriving at their cost shall be disclosed in the notes to the annual accounts.

Substitution of original amount where cost unknown

25. Where there is no record of the cost of any asset acquired by a society or of any price, expenses or costs relevant for determining its cost in accordance with paragraph 22, or any such record cannot be obtained without unreasonable expense or delay, its cost shall be taken for the purposes of paragraphs 8 to 16 to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the society.

PART VI

ALTERNATIVE ACCOUNTING RULES

26. The rules set out in paragraphs 8 to 25 of this Schedule are referred to below in this Schedule as the historical cost accounting rules.

27. Subject to paragraphs 29, 30 and 31, the amounts to be included in respect of assets of any description mentioned in paragraph 28 may be determined on any basis so mentioned.

28.—(1) Intangible fixed assets, other than goodwill, may be included at their current cost.

(2) Tangible fixed assets may be included at a market value determined as at the date of their last valuation or at their current cost.

(3) Investments of any description falling to be included under Asset items C.2 and 3 in Parts I and II of Schedule 2 and under Asset item C.4 in Part II of Schedule 2, and all other securities held as financial fixed assets may be included either—

(a) at a market value determined as at the date of their last valuation, or

(b) at a value determined on any basis which appears to the directors to be appropriate in the circumstances of the society,

but in the latter case particulars of the method of valuation adopted and of the reasons for adopting it shall be disclosed in a note to the accounts.

(4) Investments of any description not held as financial fixed assets (if not valued in accordance with paragraph 16) may be included at their current cost.

29.—(1) Where the value of any asset of a society is determined on any basis mentioned in paragraph 28, that value shall be, or (as the case may require) shall be the starting point for determining the amount to be included in respect of that asset in the society's accounts, instead of its cost or any value previously so determined for that asset; and methods of depreciation to be used pursuant to these Regulations shall apply accordingly in relation to any such asset with the substitution for any reference to its cost of a reference to the value most recently determined for that asset on any basis mentioned in paragraph 28.

(2) The amount of any provision for depreciation required in the case of any fixed asset by paragraph 9 or 10 as it applies by virtue of sub-paragraph (1) is referred to below in this paragraph as the adjusted amount, and the amount of any provision which would be required by that paragraph in the case of that asset according to the historical cost accounting rules is referred to as the historical cost amount.

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

30.—(1) This paragraph applies where the amounts to be included in respect of any assets of a society have been determined on any basis mentioned in paragraph 28.

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

(3) In the case of each balance sheet item affected either—

(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,

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

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined as there mentioned are references to—

- (a) the aggregate amount which would be required to be shown in respect of that item if the amounts to be included in respect of all the assets covered by that item were determined according to the historical cost accounting rules; and
- (b) the aggregate amount of the cumulative provisions for depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.

31.—(1) With respect to any determination of the value of an asset of a society on any basis mentioned in paragraph 28, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) shall be credited or, as the case may be, debited to a separate reserve (referred to in these Regulations as “the revaluation reserve”).

(2) The revaluation reserve shall be reduced to the extent that the amounts standing to the credit of that reserve are no longer necessary for the purpose of the accounting policies adopted by the society, but an amount may only be transferred—

- (a) from the revaluation reserve to the income and expenditure account if—
 - (i) the amount in question was previously charged to that account, or
 - (ii) it represents a realised profit, or
- (b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve.

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

PART VII

ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

32.—(1) Subject to the following sub-paragraphs, amounts to be included in respect of assets and liabilities denominated in foreign currencies shall be expressed in sterling after translation at an appropriate spot rate of exchange prevailing at the balance sheet date.

(2) An appropriate rate of exchange prevailing on the date of purchase may however be used for assets held as financial fixed assets and assets to be included under Asset items D and E in Parts I and II of Schedule 2, if they are not covered or not specifically covered in either the spot or forward currency markets.

(3) An appropriate spot rate of exchange prevailing at the balance sheet date shall be used for translating uncompleted spot exchange transactions.

(4) An appropriate forward rate of exchange prevailing at the balance sheet date shall be used for translating uncompleted forward exchange transactions.

(5) This paragraph does not apply to assets or liabilities held, or any transaction entered into, for hedging purposes, or to any assets or liabilities which are themselves hedged.

33.—(1) Subject to sub-paragraph (2), any difference between the amount to be included in respect of an asset or liability under paragraph 32 and the book value, after translation into sterling

at an appropriate rate, of that asset or liability, shall be credited or, as the case may be, debited to the income and expenditure account.

(2) In the case however of assets held as financial fixed assets, of assets to be included in Asset items D and E in Parts I and II of Schedule 2, and of transactions undertaken to cover such assets, any such difference shall be deducted from or credited to the general reserve included in the balance sheet.

SCHEDULE 8

Regulation 8

DIRECTORS' REPORT

Miscellaneous

1. There shall be stated the names of the persons who, at any time during the financial year, were directors of the society.
2. The directors' report shall contain—
 - (a) a statement of the business objectives and activities of the society and of any connected undertaking;
 - (b) particulars of the events during the financial year considered by the directors of the society to have an important effect on the society or any connected undertaking;
 - (c) particulars of any events which have occurred since the end of the financial year and which are considered by the directors of the society to have an important effect on the society or any connected undertaking; and
 - (d) an indication of the opinion of the directors of the society as to the developments which they consider likely to happen in the business of the society or any connected undertaking.

Land and buildings

3. If, in the case of such of the fixed assets of the society or of any subsidiary undertaking as consist in interests in land and buildings, their market value (as at the end of the financial year) differs substantially from the amount at which they are included in the balance sheet, and the difference is, in the directors' opinion, of such significance as to require that the attention of members of the society should be drawn to it, the report shall indicate the difference with such degree of precision as is practicable.

Political and charitable gifts

4.—(1) The following applies if the society or any subsidiary undertaking of the society has in the financial year given money for political purposes or charitable purposes or both.

(2) If the money given exceeded £200 in amount, there shall be contained in the directors' report for the year—

- (a) in the case of each of the purposes for which the money has been given, a statement of the amount of money given for that purpose; and
- (b) in the case of political purposes for which money has been given, the following particulars (so far as is applicable)—
 - (i) the name of each person to whom money has been given for those purposes exceeding £200 in amount and the amount of money given; and

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(ii) if money exceeding £200 in amount has been given by way of donation or subscription to a political party, the identity of the party and the amount of money given.

(3) For the purposes of this paragraph a society or a subsidiary undertaking is to be treated as giving money for political purposes if, directly or indirectly—

- (a) it gives a donation or subscription to a political party of the United Kingdom or any part of it; or
- (b) it gives a donation or subscription to a person who, to the society's knowledge (or, as the case may be, that of the subsidiary undertaking), is carrying on, or proposing to carry on, any activities which can, at the time at which the donation or subscription was given, reasonably be regarded as likely to affect public support for such a political party as is mentioned.

(4) For the purposes of this paragraph money given for charitable purposes to a person who, when it was given, was ordinarily resident outside the United Kingdom shall be left out of account.

(5) In this paragraph, "charitable purposes" means purposes which are exclusively charitable; and, as respects Scotland, "charitable" is to be construed as if it were contained in the Income Tax Acts.

Directors' interests

5.—(1) Subject to sub-paragraphs (2) and (3), the directors' report shall state the following, with respect to each person who, at the end of the financial year, was a director of the society—

- (a) whether or not he was at the end of that year interested in shares in, or debentures of, any connected undertaking of the society; and
- (b) if he was so interested—
 - (i) the number and amount of shares in, and debentures of, each such undertaking (specifying it) in which he was then interested;
 - (ii) whether or not he was, at the beginning of that year (or, if he was not then a director, when he became one), interested in shares in, or debentures of, that or any other such undertaking; and
 - (iii) if he was, the number and amount of shares in, and debentures of, each undertaking (specifying it) in which he was interested at the beginning of the financial year or (as the case may be) when he became a director.

(2) The particulars required by sub-paragraph (1) may be given by way of notes to the society's annual accounts in respect of the financial year, instead of being stated in the directors' report.

(3) Particulars required by sub-paragraph (1) are not required to be given in respect of directors' nominee shareholdings, held on behalf of the society.

(4) Any changes in the details disclosed under sub-paragraph (1) between the end of the year and the relevant date must be disclosed in the directors' report and any such change after that date may be so disclosed.

(5) For the purposes of sub-paragraph (4) "the relevant date" is—

- (a) the date one month prior to the date of the notice of the society's annual general meeting; or
- (b) if earlier, the date on which approval, under section 80 of the Act, of components of the annual accounts is completed.

(6) In this paragraph, the interest of the wife, husband, infant son or infant daughter of a director of a society (not being himself or herself a director of the society) is to be treated as an interest of the

director; and “son” includes step-son and “daughter” includes step-daughter and “infant” means, in relation to Scotland, a person under the age of 18 years.

(7) In this paragraph, any reference to an interest of a director, or any other person mentioned in sub-paragraph (6), in shares or debentures shall be interpreted in accordance with Part I of Schedule 13 to the Companies Act 1985.

Employee information

6.—(1) This paragraph applies to the directors' report where the average number of persons employed by the society in each month during the financial year exceeded 250.

(2) For the purposes of sub-paragraph (1) the average number is the quotient derived by dividing, by the number of complete calendar months in the financial year, the number derived by ascertaining, in relation to each of those months, the number of persons who, under contracts of service, were employed in the month (whether throughout it or not) by the society, and adding up the numbers ascertained.

(3) The directors' report shall where this paragraph applies contain a statement describing such policy as the society has applied during the financial year—

- (a) for giving full and fair consideration to applications for employment by the society made by disabled persons, having regard to their particular aptitudes and abilities;
- (b) for continuing the employment of, and for arranging appropriate training for, employees of the society who have become disabled persons during the period when they were employed by the society; and
- (c) otherwise for the training, career development and promotion of disabled persons employed by the society.

(4) The directors' report shall where this paragraph applies also contain a statement describing the action that has been taken during the financial year to introduce, maintain or develop arrangements aimed at—

- (a) providing employees systematically with information on matters of concern to them as employees;
- (b) consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests;
- (c) encouraging the involvement of employees in the society's performance; and
- (d) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the society.

(5) In this paragraph—

- (a) “employment” means employment other than employment to work wholly or mainly outside the United Kingdom, and “employed” and “employee” shall be construed accordingly; and
- (b) “disabled person” has the same meaning as in the Disability Discrimination Act 1995⁽²²⁾.

Percentages

7.—(1) The directors' report shall disclose, in accordance with sub-paragraph (2)—

- (a) free capital as a percentage of the total of Liability items A to D in Part I or II of Schedule 2; and

(22) 1995 c. 50.

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- (b) gross capital as a percentage of the total of Liability items A to D in Part I or II of Schedule 2.
- (2) The matters required to be disclosed by sub-paragraph (1) shall be disclosed—
 - (a) where the society is a single accounts society, in relation to the society; and
 - (b) where the society is a group accounts society, in relation to the society and its subsidiary undertakings.

Mortgage arrears

8. The directors' report shall disclose in respect of mortgage accounts of the society and of any subsidiary undertaking twelve or more months in arrears at the balance sheet date—

- (a) the number of such accounts;
- (b) the total amount (before any provision for bad and doubtful debts or interest in suspense) outstanding on such accounts which is included in Asset item B in Part I or II of Schedule 2; and
- (c) the total amount of arrears on such accounts.

Supplier payment policy

9.—(1) The directors' report shall state, with respect to the next following financial year—

- (a) whether in respect of some or all of its suppliers it is the society's policy to follow any code or standard on payment practice and, if so, the name of the code or standard and the place where information about, and copies of, the code or standard can be obtained,
- (b) whether in respect of some or all of its suppliers it is the society's policy—
 - (i) to settle the terms of payment with those suppliers when agreeing the terms of each transaction,
 - (ii) to ensure that those suppliers are made aware of the terms of payment, and
 - (iii) to abide by the terms of payment,
- (c) where the society's policy is not as mentioned in sub-paragraph (a) or (b) in respect of some or all of its suppliers, what its policy is with respect to the payment of those suppliers,

and if the society's policy is different for different suppliers or classes of suppliers, the report shall identify the suppliers to which the different policies apply.

In this sub-paragraph references to the society's suppliers are references to persons who are or may become its suppliers.

(2) The report shall also state the number of days which bears to the number of days in the financial year the same proportion as

X bears to Y

where—

X = the aggregate of the amounts which were owed to trade creditors at the end of the year; and
 Y = the aggregate of the amounts in which the society was invoiced by suppliers during the year.

(3) For the purposes of sub-paragraphs (1) and (2) a person is a supplier of the society at any time if—

- (a) at that time, he is owed an amount in respect of goods or services supplied, and

- (b) that amount would be included under the heading corresponding to liability item E.4 (trade creditors) in Format 1 of the balance sheet formats set out in Part I of Schedule 4 to the Companies Act 1985(23) if—
- (i) the society's accounts fell to be prepared as at that time,
 - (ii) those accounts were prepared in accordance with Schedule 4 to the Companies Act 1985, and
 - (iii) that Format were adopted.

(4) For the purposes of sub-paragraph (2), the aggregate of the amounts which at the end of the financial year were owed to trade creditors shall be taken to be the amounts which would be shown under the heading corresponding to liability item E.4 (trade creditors) in Format 1 of the balance sheet formats set out in Part I of Schedule 4 to the Companies Act 1985 if the society's accounts were prepared in accordance with Schedule 4 and that Format were adopted.

New activities

10. The directors' report shall describe any activities in which the society or any of its subsidiary undertakings has engaged during the financial year of a different nature from the activities in which it has previously engaged.

SCHEDULE 9

Regulation 9

ANNUAL BUSINESS STATEMENT

Statutory percentages

1.—(1) The annual business statement of a society shall state, as at the end of the financial year with which it deals, the following percentages—

- (a) the difference between the values of X and Y as at the balance sheet date, expressed as a percentage of X, where X and Y are calculated as defined in section 6(2) and (3) of the Act(24) and subject to sub-paragraph (3);
- (b) the limit for the percentage described in sub-paragraph (a) stated in section 6(1) of the Act;
- (c) the difference between the values of X and Y as at the balance sheet date, expressed as a percentage of X, where X and Y are calculated as defined in section 7(2) and (3) of the Act(25); and
- (d) the limit for the percentage described in sub-paragraph (c) stated in section 7(1) of the Act.

(2) The annual business statement shall include an explanation of the basis of the calculation specified in sub-paragraph (1) and of what is represented by each of the percentages and limits so specified.

(3) For the purpose of calculating the percentage required to be stated by sub-paragraph (1)(a)—

- (a) the liquid assets of the society and any subsidiary undertakings referred to in section 6(2) (a) of the Act are those included in the balance sheet under Asset item A; and
- (b) the fixed assets of the society and any subsidiary undertakings referred to in section 6(2) (b) of the Act are those included in the balance sheet under Asset items D and E,

(23) 1985 c. 6; Part I of Schedule 4 was amended by section 4(2) of and Schedule 1 to the Companies Act 1989 (c. 40) and by S.I. 1996/189.

(24) Section 6 was substituted by section 4 of the Building Societies Act 1997 (c. 32).

(25) Section 7 was substituted by section 8 of the Building Societies Act 1997.

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in Part I, or in the case of a group accounts society, Part II of Schedule 2.

Other percentages

2.—(1) Subject to the following provisions of this paragraph, the annual business statement of a society shall state the following particulars in respect of the society both in relation to the financial year with which it deals and in relation to the previous financial year—

- (a) as a percentage of the total of Liability items A to D in Part I or II of Schedule 2 as at the balance sheet date—
 - (i) the gross capital as at that date;
 - (ii) the free capital as at that date; and
 - (iii) liquid assets as of that date;
- (b) the profit or loss after taxation as a percentage of the mean total assets; and
- (c) management expenses as a percentage of the mean total assets.

(2) Where the society is a group accounts society, the particulars required to be stated by sub-paragraph (1) in respect of the society shall be stated in respect of the society and its subsidiary undertakings, but this sub-paragraph shall not be taken to prohibit the stating in addition by a society of those particulars in respect of the society alone.

(3) Any matter required by sub-paragraph (1) to be stated as a particular in, or to be used as a factor in calculating a particular required by this paragraph to be stated in, the annual business statement and which relates to a previous financial year is required to be so stated or used for the purpose of assisting the assessment of the corresponding particular for the financial year with which the annual business statement deals and accordingly shall, where it can be derived from an amount in annual accounts adjusted in accordance with regulation 3(7)(b), be derived from that amount as so adjusted.

(4) The annual business statement shall include an explanation of what is represented by each of the particulars referred to in sub-paragraph (1) and, where sub-paragraph (2) applies, a statement of the basis on which particulars are stated by virtue of that sub-paragraph.

(5) Subject to sub-paragraph (3), in this paragraph—

- (a) “management expenses” means the total of items 9 and 10 in Part I or II of Schedule 1;
- (b) “mean total assets” means, in respect of a financial year, the average amount of total assets as would have been included in the balance sheet throughout that year under Asset item H in Part I or II of Schedule 2, calculated on a reasonable basis;
- (c) “the profit or loss after taxation” shall be taken from item 25 in Part I or, as the case may be, item 28 in Part II of Schedule 1; and
- (d) “total assets” shall be taken from Asset item H in Part I or II of Schedule 2.

(6) With regard to sub-paragraph (5)(b) the basis of calculation used shall be stated in the annual business statement.

(7) In sub-paragraph (5)(b) “reasonable” shall be interpreted in accordance with section 74(5) of the Act.

Information relating to directors and other officers

3.—(1) The annual business statement of a society shall state—

- (a) in relation to each person who was, at the end of the financial year with which it deals, a director of the society—
 - (i) his name;

- (ii) his home address or an address, other than that of the society, at which documents may be served on him;
 - (iii) his business occupation;
 - (iv) the bodies (other than the society) of which he is a director, if any;
 - (v) his date of birth; and
 - (vi) his date of appointment as director; and
- (b) in relation to each person who was, at the end of the financial year with which it deals, an officer (but not a director) of the society—
- (i) his name;
 - (ii) his business occupation; and
 - (iii) the bodies of which he is a director, if any.
- (2) The annual business statement of a society shall state particulars of any arrangement entered into during the financial year with which it deals whereby—
- (a) a director of the society or a person connected with him acquired, or arranged to acquire, any non-cash asset from a relevant body, or
 - (b) a relevant body acquired, or arranged to acquire, any non-cash asset from a director of the society or a person connected with him,

and for the purposes of this sub-paragraph “non-cash asset” and “connected with” shall be construed in accordance with Part VII (Management of Societies) of the Act, and “relevant body” means the society or any subsidiary undertaking of the society.

4.—(1) The annual business statement of a society shall state, in relation to each person who was, at the end of the financial year with which it deals, a director or the chief executive of the society, particulars of his service contract (if any) with the society including in particular—

- (a) the date on which the contract was entered into;
- (b) whether the contract is for a fixed term and, if so, what the term is and whether the contract is automatically renewable in any circumstances (specifying them); and
- (c) whether the contract provides for termination by notice (otherwise than for breach of its terms) and, if so, what period of notice must be given by each of the parties.

(2) The annual business statement of a society shall state, in relation to each person who was, at the end of the financial year with which it deals, a director or other officer of the society, whether he or any member of his immediate family was at the end of that year entitled to any right to subscribe for shares in, or debentures of, any connected undertaking of the society and whether any such right was granted to, or exercised by, him or a member of his immediate family during that year.

(3) If any right of the kind mentioned in sub-paragraph (2) granted to a director or other officer of the society or a member of his immediate family was outstanding at the end of that year, or was granted during that year but was not outstanding at the end of it, there shall be stated in respect of each such right—

- (a) the name of the body in respect of which the right was granted;
- (b) the date on which the right was granted;
- (c) the period during which, or the time at which, it is exercisable;
- (d) the consideration for the grant (or, if there is no consideration, that fact); and
- (e) a description of the shares or debentures involved and the number or amount of them, and the prices to be paid for them (or the consideration, if otherwise than in money).

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(4) If any right of the kind mentioned in sub-paragraph (2) was exercised by a director or other officer of the society or a member of his immediate family during that year, there shall be stated in respect of each such right—

- (a) the name of the body in respect of which the right was exercised (identifying the right, if more than one was exercisable in respect of that body);
- (b) a description of the shares or debentures involved and the number or amount of them; and
- (c) if they were registered in his name, that fact, and, if not, the name or names of the person or persons in whose name or names they were registered, together (if they were registered in the names of two persons or more) with the number or amount registered in the name of each of them.

(5) In sub-paragraphs (2), (3) and (4) a director’s or other officer’s “immediate family” means his spouse and infant children but does not include a person who is himself a director or other officer of the society; and for this purpose “children” includes step-children, and “infant” means, in relation to Scotland, under the age of 18 years.

SCHEDULE 10

Regulation 10

SUMMARY FINANCIAL STATEMENT

PART I

FORMAT OF SUMMARY FINANCIAL STATEMENT

SECTION A

*PRESCRIBED FORM OF STATEMENT FOR THE
PURPOSES OF SECTION 76(4) OF THE ACT*

This financial statement is a summary of information in the audited annual accounts, the directors’ report and annual business statement, all of which will be available to members and depositors free of charge on demand at every office of[NOTE 1] from/after [NOTE 2]. [NOTE 3].

NOTE 1: Insert name of society.

NOTE 2: Delete as appropriate.

NOTE 3: Insert appropriate date.

SECTION B

SUMMARY DIRECTORS' REPORT

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SECTION C

FORMAT OF SUMMARY STATEMENT

RESULTS FOR THE YEAR	THIS YEAR £	LAST YEAR £
1. Net interest receivable	•	•
2. Other income and charges	•	•
3. Administrative expenses	•	•
4. Provisions	•	•
5. Profit/Loss [NOTE 1] for the year before taxation	•	•
6. Taxation	•	•
7. Minority interests [NOTE 2]	•	•
8. Extraordinary income and charges after tax	•	•
9. Profit/Loss [NOTE 1] for the year	•	•
FINANCIAL POSITION AT END OF YEAR		
Assets		
10. Liquid assets	•	•
11. Mortgages	•	•
12. Other loans	•	•
13. Fixed and other assets	•	•
14. Total assets	•	•
Liabilities		
15. Shares	•	•
16. Borrowings	•	•
17. Other liabilities	•	•
18. Subordinated liabilities	•	•
19. Subscribed capital	•	•
20. Reserves	•	•
21. Other capital [NOTE 3]	•	•
22. Total liabilities	•	•

NOTE 1: Delete as appropriate.

NOTE 2: Group accounts society only.

NOTE 3: The heading may be replaced by "Revaluation reserve" where this is the only category of "Other capital" in the balance sheet in the annual accounts.

SECTION D

FORMAT OF SUMMARY OF KEY FINANCIAL RATIOS

	THIS YEAR %	LAST YEAR %
1. Gross capital as a percentage of shares and borrowings.	•	•
2. Liquid assets as a percentage of shares and borrowings.	•	•
3. Profit/Loss [NOTE 1] for the year as a percentage of mean total assets.	•	•
4. Management expenses as a percentage of mean total assets.	•	•

NOTE 1: Delete as appropriate.

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PART II

PROVISIONS APPLICABLE TO PART I

1. The Summary Directors' Report (which is required by section B of Part I) may be in any format but shall include—

- (a) in the case of a single accounts society—
 - (i) a summary review of the business of the society during, and a commentary on its financial position at the end of, the relevant year;
 - (ii) a summary review of the events during the relevant year considered by the directors of the society to have an important effect on the society;
 - (iii) a summary review of any events which have occurred since the end of the relevant year and which are considered by the directors of the society to have an important effect on the society; and
 - (iv) a summary indication of the opinion of the directors of the society as to the developments considered by them to be likely to happen in the business of the society; and
- (b) in the case of a group accounts society—
 - (i) a summary review of the business of the society and its subsidiary undertakings during, and a commentary on their financial position at the end of, the relevant year;
 - (ii) a summary review of the events during the relevant year considered by the directors of the society to have an important effect on the society and its subsidiary undertakings;
 - (iii) a summary review of any events which have occurred since the end of the relevant year and which are considered by the directors of the society to have an important effect on the society and its subsidiary undertakings; and
 - (iv) a summary indication of the opinion of the directors of the society as to the developments considered by them to be likely to happen in the business of the society and its subsidiary undertakings.

2. In sections C and D of Part I “year” means “financial year”, “this year” means the relevant year, and “last year” means the financial year preceding the relevant year.

3. Any amount or percentage required to be included in section C or D of Part I in the column headed “LAST YEAR” is required to be included for the purposes of assisting the assessment of the corresponding amount or percentage in the column headed “THIS YEAR” and accordingly shall, where it is derived from an amount in annual accounts adjusted in accordance with regulation 3(7)(b), be derived from that amount as so adjusted.

4. Sections C and D of Part I shall all be completed—

- (a) in relation to a single accounts society, in relation to the society, and
- (b) in relation to a group accounts society, in relation to the society and its subsidiary undertakings.

5. Subject to paragraph 3, in section C of Part I—

- (a) item 1 shall be derived from item 3 in Part I, or, as the case may be, Part II, of Schedule 1,
- (b) item 2 shall be derived from items 4 to 8 and 11 in Part I, or, as the case may be, Part II, of Schedule 1,
- (c) item 3 shall be derived from items 9, 10, 14 and 15 in Part I, or, as the case may be, Part II, of Schedule 1,

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- (d) item 4 shall be derived from items 12 and 13 in Part I, or, as the case may be, Part II, of Schedule 1,
 - (e) item 5 shall be derived from item 16 in Part I, or, as the case may be, Part II, of Schedule 1,
 - (f) item 6 shall be derived from items 17 and 24 in Part I, or, as the case may be, items 17 and 27 in Part II, of Schedule 1,
 - (g) item 7 shall be derived from item 19 in Part II of Schedule 1,
 - (h) item 8 shall be derived from item 23 in Part I, or, as the case may be, items 25 and 26 in Part II of Schedule 1,
 - (i) item 9 shall be derived from item 25 in Part I, or, as the case may be, item 28 in Part II, of Schedule 1,
 - (j) item 10 shall be derived from Asset item A in Part I, or, as the case may be, Part II, of Schedule 2,
 - (k) item 11 shall be derived from Asset item B.1 and B.2(a) in Part I, or, as the case may be, Part II, of Schedule 2,
 - (l) item 12 shall be derived from Asset item B.2(b) in Part I, or, as the case may be, Part II of Schedule 2,
 - (m) item 13 shall be derived from Asset items C to G in Part I, or, as the case may be, in Part II, of Schedule 2,
 - (n) item 15 shall be derived from Liability item A in Part I, or, as the case may be, Part II, of Schedule 2,
 - (o) item 16 shall be derived from Liability items B to D in Part I, or, as the case may be, Part II, of Schedule 2,
 - (p) item 17 shall be derived from Liability items E to G in Part I, or, as the case may be, Part II, of Schedule 2,
 - (q) item 18 shall be derived from Liability item H in Part I, or, as the case may be, Part II, of Schedule 2,
 - (r) item 19 shall be derived from Liability item I in Part I, or, as the case may be, Part II, of Schedule 2,
 - (s) item 20 shall be derived from Liability item K in Part I, or, as the case may be, Part II, of Schedule 2, and
 - (t) item 21 shall be derived from Liability item J in Part I, or, as the case may be, items J and L in Part II, of Schedule 2.
- 6.** A heading for an item contained in section C of Part I shall not be included if there is no amount to be shown for that item in respect of the relevant year or the previous financial year.
- 7.** Subject to paragraph 3, in section D of Part I—
- (a) item 1 shall be derived from the particulars required to be stated in the annual business statement by paragraph 2(1)(a)(i) of Schedule 9,
 - (b) item 2 shall be derived from the particulars required to be stated in the annual business statement by paragraph 2(1)(a)(iii) of Schedule 9,
 - (c) item 3 shall be derived from the particulars required to be stated in the annual business statement by paragraph 2(1)(b) of Schedule 9, and
 - (d) item 4 shall be derived from the particulars required to be stated in the annual business statement by paragraph 2(1)(c) of Schedule 9.

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8. There shall be disclosed as a note to the Summary of Key Financial Ratios, the format of which is set out in section D of Part I, the items in section C of Part I which together constitute gross capital for the purposes of item 1 of section D of that Part.

9. There shall be included as a note to the Summary of Key Financial Ratios, the format of which is set out in section D of Part I, an explanation of what each of items 1, 2, 3 and 4 in that section measures and its significance.

10. Where there are extraordinary items in the income and expenditure account for the relevant year or the previous financial year, there shall be disclosed in a note to the Summary Statement (the format of which is set out in section C of Part I) the nature of the extraordinary items in the income and expenditure account for that year.

11. In this Schedule “relevant year”, in relation to a summary financial statement of a society, means the financial year of the society with which the summary financial statement deals.

SCHEDULE 11

Regulation 11

INTERPRETATION OF SCHEDULES

1. The following paragraphs apply for the purposes of the interpretation of the Schedules to these Regulations.

Balance sheet date

2. “Balance sheet date”, in relation to a balance sheet, means the date as at which the balance sheet was prepared.

Capital

3.—(1) “Gross capital” means reserves as shown in the balance sheet plus any subordinated liabilities, subscribed capital, revaluation reserves and minority interests, where applicable, as shown in the balance sheet.

(2) “Free capital” means the aggregate of gross capital and general provisions for bad and doubtful debts less intangible fixed assets and tangible fixed assets, as shown in the balance sheet.

Leases

4. In respect of leases—

“long lease” means a lease in the case of which the portion of the term for which it was granted remaining unexpired at the end of the financial year is not less than 50 years;

“short lease” means a lease which is not a long lease; and

“lease” includes an agreement for a lease.

Listed securities

5. “Listed security” means a security listed on a stock exchange in an EEA State or on any stock exchange not in an EEA State which meets criteria agreed between the Financial Services Authority and the Stock Exchange and is included in a list maintained by the Stock Exchange for the purposes

of the rules of the Stock Exchange(26) and the expression “unlisted security” shall be construed accordingly.

Loans

6. A loan is treated as falling due for repayment, and an instalment of a loan is treated as falling due for payment, on the earliest date on which the lender could require repayment or (as the case may be) payment, if he exercised all options and rights available to him.

Materiality

7. No provision of these Regulations requiring the inclusion of amounts in a particular account, or in notes to the annual accounts (other than paragraphs 4 to 11, 13, 14(3)(b) and 35 of Schedule 5), shall be taken to prohibit the disregarding of an amount which, in the particular context of that provision, is immaterial.

Participating interest

8. “Participating interest” has the meaning given to that phrase in section 260 of the Companies Act 1985(27).

Provisions

9.—(1) References to provisions for depreciation or diminution in value of assets are to be taken as references to any amount written off by way of providing for depreciation or diminution in value of assets.

(2) Any reference in an income and expenditure account to the depreciation of, or amounts written off, assets of any description is to be taken as a reference to any provision for depreciation or diminution in value of assets of that description.

(3) References to provisions for liabilities and charges are to be taken as a reference to any amount retained as reasonably necessary for the purpose of providing for any liability or loss which is either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which it will arise.

Scots land tenure

10. In the application of these Regulations in Scotland, “land of freehold tenure” means land in respect of which the society (or, as the case may be, a subsidiary undertaking of the society) is the proprietor of the dominium utile or, in the case of land not held on feudal tenure, is the owner, and “land of leasehold tenure” means land of which the society (or, as the case may be, a subsidiary undertaking of the society) is the tenant under a lease.

Staff costs

11.—(1) “Social security costs” means any contribution by the society to any state social security or pension scheme, fund or arrangement.

(2) “Pension costs” includes any costs incurred by the society in respect of any pension scheme established for the purpose of providing pensions for persons currently or formerly employed by the

(26) The list and the rules may be obtained from the Listing Department, Capital Markets Division, the London Stock Exchange Limited, London EC2N 1HP.

(27) 1985 c. 6; section 260 was inserted by section 22 of the Companies Act 1989 (c. 40).

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society, any sums set aside for the future payment of pensions directly by the society to current or former employees and any pensions paid directly to such persons without having been first set aside.

(3) Any amount stated in respect of the item “social security costs” or in respect of the item “wages and salaries” in the society’s income and expenditure account shall be determined by reference to payments made or costs incurred in respect of all persons employed by the society during the financial year.

Amounts repayable

12. Only those amounts which can at any time be withdrawn without notice or for which a maturity or period of notice of twenty-four hours or one working day has been agreed shall be regarded as repayable on demand.

Other definitions

13. In the Schedules to these Regulations—

“credit institution” means an undertaking carrying on a deposit-taking business within the meaning of the Banking Act 1987(28) and authorised by the competent authorities of an EEA State or any other State;

“EEA State” means a State which is a Contracting Party of the Agreement on the European Economic Area signed at Oporto on 2nd May 1992(29) as adjusted by the Protocol signed at Brussels on 17th March 1993(30);

“financial fixed asset” means securities held as fixed assets; participating interests and shareholdings in subsidiary undertakings shall always be regarded as financial fixed assets;

“fixed assets” means assets of a society which are intended for use on a continuing basis in the society’s activities, and “current assets” means assets not intended for such use;

“liquid assets” means an asset of a society which is shown under Asset item A in Part I or II of Schedule 2;

“sale and repurchase transaction” means a transaction which involves the transfer by a credit institution or a customer (the “transferor”) to another credit institution or customer (the “transferee”) of assets subject to an agreement that the same assets will subsequently be transferred back to the transferor at a specified price on a date specified or to be specified by the transferor; but forward exchange transactions, options, transactions involving the issue of fixed income securities with a commitment to repurchase all or part of the issue before maturity or any similar transactions shall not be regarded as sale and repurchase transactions; and

“third party” means a person who is neither the society nor a connected undertaking.

(28) 1987 c. 22.

(29) Cm. 2073.

(30) Cm. 2183.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations revoke and replace with effect from 27th March 1998 the Building Societies (Accounts and Related Provisions) Regulations 1992. They prescribe the format and content of the annual accounts which must be prepared in respect of building societies or of building societies and their subsidiary undertakings as a group, as applicable. The previous Regulations are largely re-enacted but changes are made to take account of amendments to the provisions of the Building Societies Act 1986 governing societies' activities made by the Building Societies Act 1997.

The principal changes made by the Regulations in this respect are—

- (i) replacement generally of references to associated bodies of societies by references to connected undertakings in a building society's corporate group to reflect the removal by the 1997 Act of the restrictions in the 1986 Act on the ability of building societies to have interests in other types of bodies;
- (ii) replacement of references in regulation 6 and Schedule 6 to investments in associated bodies of societies by references to holdings in undertakings to take account of the range of interests which building societies may now have in other types of bodies;
- (iii) amendments to the format of a society's income and expenditure account and balance sheet set out in Schedules 1 and 2 to reflect the relaxation of constraints on societies' activities and to clarify and simplify the assets and liabilities headings, and consequent amendments to the format of the statement of the source and application of funds set out in Schedule 3;
- (iv) replacement of the statutory ratios and percentages to be stated in the annual business statement as set out in Schedule 9 by statutory percentages based on the lending and funding limits in sections 6 and 7 of the Building Societies Act 1986 substituted by the 1997 Act, amendment of the profit-based percentage by removing the requirement to show profit as a percentage of mean reserves, amendment of the liquid assets percentage to show such assets as a percentage of shares and borrowings and the introduction of a new percentage to show management expenses as a percentage of total assets.

The Regulations also make more stringent the requirements for the disclosure of directors' remuneration and other benefits in the notes to the annual accounts as set out in Schedule 5. The remuneration, bonuses, other non-cash benefits, share option gains, incentives, pension contributions and any annual increase in accrued pension or lump sum pension benefits payable for each director by name are to be shown, together with any amounts received as compensation for loss of office. These requirements will implement for the directors of building societies the key provisions of the Greenbury Code of Best Practice on Directors' Remuneration set out in *Directors' remuneration: Report of a study group chaired by Sir Richard Greenbury (17 July 1995)*.

The Regulations also make miscellaneous minor changes to the required form and content of building societies' accounts to take account of amendments to the corresponding requirements for companies' accounts under the Companies Act 1985 and to align building societies' accounts more closely with banks' accounts. In particular, the maturity analysis required in Schedule 5 has been reduced to be consistent with that used for banks and the directors' report as set out in Schedule 8 must state the policy and give information on payment of suppliers.

The matters for inclusion in the directors' report are extended to cover particulars of any important events for the society and any connected undertakings during the year and a description of any new types of activities which a society or any subsidiary undertakings has engaged in during the year.

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A regulatory appraisal has been produced setting out the objectives, costs and benefits of this instrument and is available from the Secretary, Building Societies Commission, 30—34 Kingsway, London WC2B 6ES.