SCHEDULE 2

BANKING COMPANIES: COMPANIES ACT INDIVIDUAL ACCOUNTS

PART 2

ACCOUNTING PRINCIPLES AND RULES

SECTION D

FAIR VALUE ACCOUNTING

Inclusion of financial instruments at fair value

44.—(1) Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.

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

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

(b) they are derivatives, or

(c) they are financial instruments falling within sub-paragraph (4).

(3) Unless they are financial instruments falling within sub-paragraph (4), sub-paragraph (1) does not apply to—

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

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

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

(d) equity instruments issued by the company,

(e) contracts for contingent consideration in a business combination, or

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

(4) Financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

(5) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 45, sub-paragraph (1) does not apply to that financial instrument.

(6) In this paragraph—

"associated undertaking" has the meaning given by paragraph 19 of Schedule 6 to these Regulations;

"joint venture" has the meaning given by paragraph 18 of that Schedule.

Determination of fair value

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

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

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

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

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

Hedged items

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

Other assets that may be included at fair value

47.—(1) This paragraph applies to—

(a) investment property, and

(b) living animals and plants,

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

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

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

Accounting for changes in value

48.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 44 or 46 or an asset is valued in accordance with paragraph 47.

(2) Notwithstanding paragraph 19 in this Part of this Schedule, and subject to sub-paragraphs (3) and (4), a change in the value of the financial instrument or of the investment property or living animal or plant must be included in the profit and loss account.

(3) Where—

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

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

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

(4) Where the instrument accounted for—

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

(b) is not a derivative,

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

The fair value reserve

49.—(1) The fair value reserve must be adjusted to the extent that the amounts shown in it are no longer necessary for the purposes of paragraph 48(3) or (4).

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

Assets and liabilities denominated in foreign currencies

50.—(1) Subject to the following sub-paragraphs, amounts to be included in respect of assets and liabilities denominated in foreign currencies must be in sterling (or the currency in which the accounts are drawn up) 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 assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format, 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 must be used for translating uncompleted spot exchange transactions.

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

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

51.—(1) Subject to sub-paragraph (2), any difference between the amount to be included in respect of an asset or liability under paragraph 50 and the book value, after translation into sterling (or the currency in which the accounts are drawn up) at an appropriate rate, of that asset or liability must be credited or, as the case may be, debited to the profit and loss account.

(2) In the case, however, of assets held as financial fixed assets, of assets to be included under assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format and of transactions undertaken to cover such assets, any such difference may be deducted from or credited to any non-distributable reserve available for the purpose.