
STATUTORY INSTRUMENTS

1994 No. 1983

FRIENDLY SOCIETIES

The Friendly Societies (Accounts and Related Provisions) Regulations 1994

<i>Made</i>	- - - -	<i>20th July 1994</i>
<i>Laid before Parliament</i>		<i>1st August 1994</i>
<i>Coming into force</i>	- -	<i>1st September 1994</i>

The Friendly Societies Commission, with the consent of the Treasury, in exercise of the powers conferred on it by sections 70 and 71 of, and paragraph 17 of Schedule 14 to, the Friendly Societies Act 1992(1), and of all other powers enabling it in that behalf, hereby makes the following Regulations:

PART I
PRELIMINARY

Citation and commencement

1. These Regulations may be cited as the Friendly Societies (Accounts and Related Provisions) Regulations 1994, and shall come into force on 1st September 1994.

Interpretation

2.—(1) In these Regulations:

“the Act” means the Friendly Societies Act 1992;

“associated body”, in relation to a society, means a body in which the society holds shares or corresponding membership rights;

“general business” has the same meaning as in the Act;

“group accounts society” means a society the committee of management of which is obliged by section 69 of the Act (duty to prepare accounts) to prepare group accounts;

“long term business” has the same meaning as in the Act;

“long term fund” means the fund or funds maintained by a society in respect of its long term business in accordance with the provisions of the Act;

“member” has the same meaning as in the Act;

“non-directive society” means a friendly society to which section 37(2) or (3) of the Act does not apply, which is a registered society and which does not carry on reinsurance business;

“particular account” means an income and expenditure account or a balance sheet;

“policy holder”, in relation to a subsidiary or a jointly controlled body of a friendly society, has the same meaning as in the Insurance Companies Act 1982(2);

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

“society” means a friendly society—

- (a) to which section 37(2) or (3) of the Act applies,
- (b) which is an incorporated friendly society, or
- (c) which carries on reinsurance business; and

“subsidiary” means a subsidiary of a group accounts society with which the group accounts of the society are required by section 69 of the Act to deal;

(2) Where a society or a non-directive society (in this paragraph referred to as a central office) has registered branches, a requirement in these Regulations in respect of a society or a non-directive society is, except where it is expressly otherwise provided, a requirement which the central office and the registered branch must each comply with as if each of them is a society or a non-directive society.

(3) Nothing in these Regulations is to be taken to imply that the carrying on by a society of any activity provision for the recording of which is contained in these Regulations is, by virtue of that provision, within the powers of that society.

Application

3. The Regulations apply to the accounts and reports (as specified in regulations 4, 5, 11 and 12) of every society to which Part VI of the Act applies in respect of any financial year of the society ending on or after 31st December 1995.

PART II— ACCOUNTS

Annual accounts—single accounts society

4. In respect of the annual accounts of a single accounts society:
- (a) every income and expenditure account must be prepared in the format set out in Part I of Schedule 1; and
 - (b) every balance sheet must be prepared in the format set out in Part I of Schedule 2.

Annual accounts—group accounts society

5. In respect of the annual accounts of a group accounts society:
- (a) the provisions of this regulation apply subject to the provisions of regulation 7 below, the supplementary provisions of which also have effect in relation to those accounts; and

- (b) within those accounts:
 - (i) every income and expenditure account relating to the society must 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 subsidiaries must be prepared on a consolidated basis in the format set out in Part I of Schedule 1 with the modifications specified in Part II of that Schedule;
 - (iii) every balance sheet relating to the society must be prepared in the format set out in Part I of Schedule 2; and
 - (iv) every balance sheet relating to the society and its subsidiaries must be prepared on a consolidated basis in the format set out in Part I of Schedule 2 with the modifications specified in Part II of that Schedule.

Content and form of accounts

6.—(1) An income and expenditure account and balance sheet referred to in regulations 4, 5 and 11 must be prepared in accordance with the relevant notes and every such document must, 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) Regulations 4, 5 and 11 are not to be read as:

- (a) requiring the heading or sub-heading 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 than is required by the format for that particular account; or
- (c) prohibiting the insertion of additional items, providing that their contents are not specifically covered by any of the items prescribed in the formats.

(3) Items preceded by lower case letter in any format set out in Schedule 1, 2 or 7 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 any income and expenditure account, the income and expenditure of the society (or, as the case may be, the society and its subsidiaries) for that year; and
 - (ii) in respect of a balance sheet, the state of affairs of the society (or, as the case may be, the society and its subsidiaries) as at the end of that year; or
- (b) their combination facilitates that assessment,

provided that where subparagraph (b) above applies, the individual amounts of any items so combined must be disclosed in a note to the annual accounts.

(4) Subject to paragraph (5) below, a heading or sub-heading for an item contained in any format set out in Schedule 1, 2 or 7 must 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).

(5) 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 and income and expenditure account, the corresponding amount for the preceding financial year must 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 must be adjusted and particulars of the adjustment and the reasons for it must be disclosed in a note to the annual accounts; and

(c) paragraph (4) above does not apply in any case where an amount can be shown for the item to which the heading or sub-heading relates in respect of the preceding financial year, and in such a case that amount must be shown under the heading or sub-heading required for that item.

(6) Subject to the provisions of Schedules 1, 2 and 7, amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa.

(7) In this regulation, “the relevant notes” means, in relation to any particular account, Part III of Schedule 1, Part III and Part IV of Schedule 2 or Part III of Schedule 7, whichever is applicable.

Group accounts—supplementary provisions

7.—(1) The annual accounts of a group accounts society must comply with the further provisions of Schedule 3 as to the form and content of the consolidated income and expenditure account and the balance sheet, 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 subsidiaries of the society must be included in the consolidated income and expenditure account and the balance sheet as required by Regulation 5, and in the notes to the accounts in respect of the society and its subsidiaries in combination, as required by regulation 8(2)(b).

(3) A subsidiary 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 subsidiaries as a whole, of the matters set out in subsections (2) and (3) of section 70 of the Act.

(4) If a society has two or more subsidiaries, 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 enumerated in paragraph (3).

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

(6) In the group accounts, the interest of the society in a jointly controlled body and the amount of profit or loss attributable to such an interest, must be shown by the equity method of accounting (which must include dealing with any goodwill arising in accordance with paragraphs 19 to 22 and 24 of Schedule 6).

(7) The equity method of accounting referred to in paragraph (6) 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 subsidiaries as a whole, of the matters set out in subsections (2) and (3) of section 70 of the Act.

Notes to annual accounts

8.—(1) The annual accounts of a single accounts society must, subject to paragraph (6) below, include notes to them containing the material specified, and set out in the manner specified, in Schedule 4 below, as well as the notes required to be included by other provisions of these Regulations.

(2) The annual accounts of a group accounts society must, subject to paragraph (6) below and any provision in Schedule 4 below which indicates otherwise, include notes to them containing:

- (a) in respect of the society; and
- (b) in respect of the society and its subsidiaries in combination,

the material specified, and set out in the manner specified, in Schedule 4 below, as well as the notes required to be included by other provisions of these Regulations.

(3) For the purposes of paragraph (2)(b) above:

- (a) any reference in a relevant provision of Schedule 4 below to a society must be taken as a reference to the society and its subsidiaries in combination; and
 - (b) each associated body of the society which is not a subsidiary must be treated as an associated body of the group.
- (4) In paragraph (3) above “relevant provision” means, in relation to Schedule 4 below, a provision thereof other than paragraphs 4 to 14 and 31.
- (5) The annual accounts of a non-directive society must include notes to them containing the material from Schedule 4 below as is specified in Part II of Schedule 7 below, (and such material must be, as far as is possible, set out in the manner specified in Schedule 4 below), as well as the notes required to be included by other provisions of these Regulations and in the application of the Schedule to a non-directive society, references in the Schedule to a society are, where appropriate, to be construed as references to a non-directive society.
- (6) Paragraphs (1), (2) and (5) above 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.

Associated bodies

9.—(1) Where a society has held any investments in an associated body during the financial year, the information specified in Schedule 5 must be given, in addition to that required by regulation 8, in the notes to the annual accounts.

(2) The information required by paragraph (1) must comprise:

- (a) where the society is a single accounts society, or a group accounts society but all its subsidiaries are excluded from the requirements of regulation 7(2), the information specified in Part I of Schedule 5; and
- (b) where the society is a group accounts society and at least one subsidiary is included in the group accounts in accordance with the requirements of regulation 7(2), the information specified in Part II of Schedule 5.

(3) With the exception of that specified in paragraph 4(2) of the Schedule, the information required by Schedule 5 need not be given with respect to an associated body 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 committee of management of the society the disclosure would seriously prejudice the business of that associated body or the business of the society or any of its subsidiaries and the Commission agrees that the information need not be given.

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

(5) If the committee of management of the society is of the opinion that the number of associated bodies in respect of which the society is required to give information specified in Schedule 5 is such that to do so would result in information of excessive length being given, the information must only be given in respect of:

- (a) those associated bodies whose results or financial position, in the opinion of the committee of management, principally affected the figures shown in the society’s annual accounts; and
- (b) subsidiaries excluded from the requirements of regulation 7(2).

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

Accounting principles and rules

10.—(1) A society must prepare its annual accounts in accordance with the accounting principles and rules set out in Schedule 6.

(2) A non-directive society must prepare its annual accounts in accordance with the accounting principles and rules set out in Parts I and II of Schedule 6 and in the application of those Parts of the Schedule to a non-directive society, references in those Parts to a society are, where appropriate, to be construed as references to a non-directive society.

Annual accounts—non-directive society

11. In respect of the annual accounts of a non-directive society:

- (a) every income and expenditure account must be prepared in the format set out in Part I of Schedule 7;
- (b) every balance sheet must be prepared in the format set out in Part II of Schedule 7; and
- (c) such accounts must be prepared in accordance with the requirements set out in regulation 8 above as modified in Part III of Schedule 7.

PART III—

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

Committee of management's annual report

12.—(1) Each committee of management's annual report of a society prepared under section 71 of the Act (Report of the committee of management of a friendly society on the society's affairs) must contain, in addition to the other matters required to be contained in it by the Act, the material specified in Part I of Schedule 8.

(2) Each committee of management's annual report of a non-directive society prepared under section 71 of the Act (Report of the committee of management of a friendly society on the society's affairs) must contain the material specified in Part I of Schedule 8 as modified by Part II of the Schedule 8.

PART IV—

MISCELLANEOUS AND GENERAL

Transitional provisions

13.—(1) A society may, with respect to a financial year preceding the financial year of the society to which these Regulations first apply, prepare such annual accounts as it would have been required to prepare had these Regulations not been made.

(2) Where any provision of these Regulations requires the recording of a particular item during or as at the end of a previous financial year, and where:

- (a) that previous financial year ended before the coming into force of these Regulations; and
- (b) the legislation in force as at the end of that previous financial year did not require the recording of that particular item,

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

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

Interpretation of Schedules

14. Schedule 9 has effect for the interpretation of the Schedules to these Regulations.

In witness whereof the common seal of the Friendly Societies Commission is hereto fixed, and is authenticated by me, a person authorised under paragraph 13 of Schedule 1 to the Friendly Societies Act 1992 on 18th July 1994.

L.S.

Michael Cook
Secretary to the Commission

We consent to this Order.

Tim Wood
Irvine Patnick
Two of the Lords Commissioners of Her
Majesty's Treasury.

20th July 1994.

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SCHEDULE 1

Regulations 4 and 5

PART I

INCOME AND EXPENDITURE ACCOUNT FORMAT

I.

Technical account—General business

1. Earned premiums, net of reinsurance
 - (a) gross premiums written (1)
 - (b) outward reinsurance premiums (2)
 - (c) change in the gross provision for unearned premiums
 - (d) change in the provision for unearned premiums, reinsurers' share
2. Allocated investment return transferred from the non-technical account (item III.6) (10)
- 2a. Investment income (8)(10)
 - (a) income from shares in subsidiaries
 - (b) income from other investments with a separate indication of that derived from jointly controlled bodies
 - (aa) income from land and buildings
 - (bb) income from other investments
 - (c) value re-adjustments on investments
 - (d) gains on the realisation of investments
3. Other technical income, net of reinsurance
4. Claims incurred, net of reinsurance (4)
 - (a) claims paid
 - (aa) gross amount
 - (bb) reinsurers' share
 - (b) change in the provision for claims
 - (aa) gross amount
 - (bb) reinsurers' share
5. Change in other technical provisions, net of reinsurance, not shown under other headings
6. Bonuses and rebates, net of reinsurance (5)
7. Net operating expenses
 - (a) acquisition costs (6)
 - (b) change in deferred acquisition costs
 - (c) administrative expenses (7)
 - (d) reinsurance commissions and profit participation
8. Other technical charges, net of reinsurance
9. Investment expenses and charges (8)
 - (a) investment management expenses, including interest

- (b) value adjustments on investments
- (c) losses on the realisation of investments

10. Sub-total (balance on the technical account for general business) (item III.1)

II.

Technical account—Long term business

- 1.** Earned premiums, net of reinsurance
 - (a) gross premiums written (1)
 - (b) outward reinsurance premiums (2)
 - (c) change in the provision for unearned premiums, net of reinsurance (3)
- 2.** Investment income (8)(10)
 - (a) income from shares in subsidiaries
 - (b) income from other investments with a separate indication of that derived from jointly controlled bodies
 - (aa) income from land and buildings
 - (bb) income from other investments
 - (c) value re-adjustments on investments
 - (d) gains on the realisation of investments
- 3.** Unrealised gains on investments (9)
- 4.** Other technical income, net of reinsurance
- 5.** Claims incurred, net of reinsurance (4)
 - (a) claims paid
 - (aa) gross amount
 - (bb) reinsurers' share
 - (b) change in the provision for claims
 - (aa) gross amount
 - (bb) reinsurers' share
- 6.** Change in other technical provisions, net of reinsurance, not shown under other headings
 - (a) long term business provision, net of reinsurance (3)
 - (aa) gross amount
 - (bb) reinsurers' share
 - (b) other technical provisions, net of reinsurance
- 7.** Bonuses and rebates, net of reinsurance (5)
- 8.** Net operating expenses
 - (a) acquisition costs (6)
 - (b) change in deferred acquisition costs
 - (c) administrative expenses (7)
 - (d) reinsurance commissions and profit participation
- 9.** Investment expenses and charges (8)

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- (a) investment management expenses, including interest
 - (b) value adjustments on investments
 - (c) losses on the realisation of investments
- 10.** Unrealised losses on investments (9)
- 11.** Other technical charges, net of reinsurance
- 11a.** Tax attributable to the long term business
- 12.** Allocated investment return transferred to the non-technical account (item III.4)
- 12a.** Transfers to or from the fund for future appropriations
- 13.** Sub-total (balance on the technical account—long term business) (item III.2)

III.

Non-technical account

- 1.** Balance on the general business technical account—(item I.10)
- 2.** Balance on the long term business technical account—(item II.13)
- 3.** Investment income (8)
 - (a) income from shares in subsidiaries
 - (b) income from other investments with a separate indication of that derived from jointly controlled bodies
 - (aa) income from land and buildings
 - (bb) income from other investments
 - (c) value re-adjustments on investments
 - (d) gains on the realisation of investments
- 3a.** Unrealised gains on investments (9)
- 4.** Allocated investment return transferred from the long term business technical account (item II.12) (10)
- 5.** Investment expenses and charges (8)
 - (a) investment management expenses, including interest
 - (b) value adjustments on investments
 - (c) losses on the realisation of investments
- 5a.** Unrealised losses on investments (9)
- 6.** Allocated investment return transferred to the general business technical account (item I.2)(10)
- 7.** Other income
- 8.** Other charges, including value adjustments
- 8a.** Excess of income over expenditure on ordinary activities before tax
- 9.** Tax on excess of income over expenditure on ordinary activities
- 10.** Excess of income over expenditure on ordinary activities after tax
- 11.** Extraordinary income
- 12.** Extraordinary charges

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13. Extraordinary gain or loss
14. Tax on extraordinary gain or loss
15. Other taxes not shown under the preceding items
16. Excess of income over expenditure for the financial year

PART II

FORMAT OF CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

The modifications to Part I of this Schedule for the format of a consolidated income and expenditure account are as follows:

- (1) Items I.2a(a), II.2(a) and III.3(a) (income from shares in subsidiaries) must be omitted.
- (2) Items III.10 (Excess of income over expenditure on ordinary activities after tax) must be replaced by the following items:
 - (III.10a) Excess of income over expenditure on ordinary activities after tax
 - (III.10b) Minority Interests.
- (3) Items III.14 (Tax on extraordinary gain or loss) must be replaced by the following items:
 - (III.14a) Tax on extraordinary gain or loss
 - (III.14b) Extraordinary gain or loss after tax
 - (III.14c) Minority interests in extraordinary gain or loss after tax.
- (4) In the case of general business, investment income expenses and charges may be disclosed in the non-technical account rather than in the technical account.
- (5) In the case of subsidiaries which are not authorised to carry on long term business in United Kingdom, notes (8) and (9) to the income and expenditure account format have effect as if references to investment income, expenses and charges arising in the long term fund or to investments attributed to the long term fund were references to investment income, expenses and charges or (as the case may be) investments relating to long term business.
- (6) In the case of subsidiaries which do not have a head office in United Kingdom, the computation required by paragraph 37 of Schedule 6 must be made annually by an actuary or other specialist in the field on the basis of recognised actuarial methods.
- (7) The information required by paragraphs 26 to 29 of Schedule 4 need not be shown.

PART III

NOTES ON THE INCOME AND EXPENDITURE FORMAT

- (1) *Gross premiums written*
 - (General business technical account: item I.1.(a))
 - Long term business technical account: item II.1.(a))

This item must comprise all amounts due during the financial year in respect of insurance contracts entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year, and must include inter alia:

 - (i) premiums yet to be determined, where the premium calculation can be done only at the end of the year;

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- (ii) single premiums, including annuity premiums, and, in long term business, single premiums resulting from bonus and rebate provisions in so far as they must be considered as premiums under the terms of the contract;
- (iii) additional premiums in the case of half-yearly, quarterly or monthly payments and additional payments from members or policy holders for expenses borne by the society;
- (iv) in the case of co-insurance, the society's portion of total premiums;
- (v) reinsurance premiums due from ceding and retroceding insurance undertakings, including portfolio entries, after deduction of cancellations and portfolio withdrawals credited to ceding and retroceding insurance undertakings.

The above amounts must not include the amounts of taxes or duties levied with premiums.

(2) Outward reinsurance premiums

(General business technical account: item I.1.(b))

Long term business technical account: item II.1(b))

This item must comprise all premiums paid or payable in respect of outward reinsurance contracts entered into by the society. Portfolio entries payable on the conclusion or amendment of outward reinsurance contracts must be added; portfolio withdrawals receivable must be deducted.

(3) Change in the provision for unearned premiums, net of reinsurance

(Long term business technical account: items II.1.(c) and II.6.(a))

In the case of long term business, the change in unearned premiums may be included either in item II.1.(c) or in item II.6.(a) of the long term business technical account.

(4) Claims incurred, net of reinsurance

(General business technical account: item I.4)

Long term business technical account: item II.5)

This item must comprise all payments made in respect of the financial year with the addition of the provision for claims (but after deducting the provision for claims for the preceding financial year).

These amounts must include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance undertakings and reinsurers and external and internal claims management costs and charges for claims incurred but not reported such as are referred to in paragraphs 38(2) and 40 of Schedule 6 below.

Sums recoverable on the basis of subrogation and salvage (within the meaning of paragraph 38 of Schedule 6 (below) must be deducted.

Where the difference between:

- (a) the loss provision made at the beginning of the year for outstanding claims incurred in previous years; and
- (b) the payments made during the year on account of claims incurred in previous years and the loss provision shown at the end of the year for such outstanding claims,

is material, it must be shown in the notes to the accounts, broken down by category and amount.

(5) Bonuses and rebates, net of reinsurance

(General business technical account: item I.6)

Long term business technical: item II.7)

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Bonuses must comprise all amounts chargeable for the financial year which are paid or payable to members and, policy holders, other insured parties or provided for their benefit, including amounts used to increase technical provisions or applied to the reduction of future premiums, to the extent that such amounts represent an allocation of surplus or income arising on business as a whole or a section of business, after deduction of amounts provided in previous years which are no longer required.

Rebates must comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

Where material, the amount charged for bonuses and that charged for rebates must be disclosed separately in the notes to the accounts.

Acquisition costs

(6) (General business technical account: item I.7.(a))

Long term business technical account: item II.8.(a))

This item must comprise the costs arising from the conclusion of insurance contracts. They must cover both direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

In the case of long term business, policy renewal commissions must be included under item II.8.(c) in the long term business technical account.

(7) Administrative expenses

(General business technical account: item I.7.(c))

Long term business technical account: item II.8.(c))

This item must include the costs arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance. They must in particular include staff costs and depreciation provisions in respect of office furniture and equipment in so far as these need not be shown under acquisition costs, claims incurred or investment charges. Item II.8.(c) must also include policy renewal commissions.

(8) Investment income, expenses and charges

(General business technical account: items I.2a and 9)

Long term business technical account: items II.2 and 9)

Non-technical account: items III.3 and 5)

Investment income, expenses and charges must, to the extent that they arise in the long term fund, be disclosed in the long term business technical account. Other investment income, expenses and charges must either be disclosed in the non-technical account or attributed between the appropriate technical and non-technical accounts. Where the society makes such an attribution it must disclose the basis for it in the notes to the accounts.

(9) Unrealised gains and losses on investments

(Long term business technical account: items II.3 and 10)

Non-technical account: items III.3a and 5a)

In the case of investments attributed to the long term fund, the difference between the valuation of the investments and their purchase price or, if they have previously been valued, their valuation as at the last balance sheet date, may be disclosed (in whole or in part) in item II.3 or II.10 (as the case may be) of the long term business technical account, and in the case of

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investments shown as assets under Assets item D (assets held to cover linked liabilities) must be so disclosed.

In the case of other investments, the difference between the valuation of the investments and their purchase price or, if they have previously been valued, their valuation as at the last balance sheet date, may be disclosed (in whole or in part) in item III.3a or III.5a (as the case may require) of the non-technical account.

(10) Allocated investment return

(General business technical account: items I.2 and 2a

Long term business technical account: item II.2

Non-technical account: items III.4 and 6)

The allocated return may be transferred from one part of the income and expenditure account to another.

Where part of the investment return is transferred to the general business technical account, the transfer from the non-technical account must be deducted from item III.6 and added to item I.2. Where part of the investment return disclosed in the long term business technical account is transferred to the non-technical account, the transfer to the non-technical account must be deducted from item II.12 and added to item III.4.

The reasons for such transfers (which may consist of a reference to any relevant statutory requirement) and the bases on which they are made must be disclosed in the notes to the accounts.

SCHEDULE 2

Regulations 4 and 5

PART I

BALANCE SHEET FORMAT

ASSETS

A Intangible assets

- (1) Development costs
- (2) Concessions, patents, licences, trade marks and similar rights and assets (1)
- (3) Goodwill (2)
- (4) Payments on account

B Investments

- (I) Land and buildings (3)
- (II) Investments in associated bodies
 - (1) Investments in subsidiaries
 - (a) Shares
 - (b) Loans
 - (2) Investments in jointly controlled bodies

- (a) Shares
- (b) Loans
- (3) Significant investments in other associated bodies (4)
 - (a) Shares
 - (b) Loans
- (III) Other financial investments
 - (1) Shares and other variable-yield securities and units in unit trusts
 - (2) Debt securities and other fixed income securities (5)
 - (3) Participation in investment pools (6)
 - (4) Loans secured by mortgages (7)
 - (5) Other loans (7)
 - (6) Deposits with credit institutions (8)
 - (7) Other (9)
- (IV) Deposits with ceding undertakings (10)

C Assets held to cover linked liabilities (11)

C

D Reinsurers' share of technical provisions (12)

D

- (1) Provision for unearned premiums
- (2) Long term business provision
- (3) Claims outstanding
- (4) Provisions for bonuses and rebates
- (5) Other technical provisions
- (6) Technical provisions for unit-linked liabilities

E Debtors (13)

- (I) Debtors arising out of direct insurance operations
 - (1) Members or policyholders
 - (2) Intermediaries
- (II) Debtors arising out of reinsurance operations
- (III) Other debtors

F Other assets

- (I) Tangible assets
 - (1) Fixtures, fittings, tools and equipment
 - (2) Payments on account (other than deposits paid on land and buildings) and assets (other than buildings) in course of construction
- (II) Stocks

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- (1) Raw materials and consumables
- (2) Work in progress
- (3) Finished goods and goods for resale
- (4) Payments on account
- (III) Cash at bank and in hand
- (IV) Other (14)

G Prepayments and accrued income

- (I) Accrued interest and rent (15)
- (II) Deferred acquisition costs (16)
- (III) Other prepayments and accrued income

LIABILITIES

A Reserves

- (I) Revaluation reserve
- (II) Reserves provided for by the rules and tables
- (III) Other reserves

B Subordinated liabilities (17)

B

Ba Fund for future appropriations (18)

Ba

C Technical provisions

- (1) Provision for unearned premiums (19)
 - (a) gross amount
 - (b) reinsurance amount (12)
- (2) Long term business provision (19)(20)(24)
 - (a) gross amount
 - (b) reinsurance amount (12)
- (3) Claims outstanding (21)
 - (a) gross amount
 - (b) reinsurance amount (12)
- (4) Provision for bonuses and rebates (22)
 - (a) gross amount
 - (b) reinsurance amount (12)
- (5) Other technical provisions (23)
 - (a) gross amount

- (b) reinsurance amount (12)

D Technical provisions for linked liabilities (24)

- (a) (a) gross amount
- (b) reinsurance amount (12)

E Provisions for other risks and charges

- (1) Provisions for pensions and similar obligations
- (2) Provisions for taxation
- (3) Other provisions

F Deposits received from reinsurers (25)

F

G Creditors (26)

- (I) Creditors arising out of direct insurance operations
- (II) Creditors arising out of reinsurance operations
- (III) Debenture loans (27)
- (IV) Amounts owed to credit institutions
- (V) Other creditors including taxation and social security

H Accruals and deferred income

H

PART II

FORMAT OF CONSOLIDATED BALANCE SHEET

The modifications to Part I of this Schedule for the format of a consolidated balance sheet are as follows:

- (1) Assets items B.II.1.(a) and (b) (Investments in subsidiaries, (a) shares and (b) loans) must be omitted.
- (2) After Liabilities item A.III. (Other reserves) there must be inserted the following new item: "IV. Minority interests".
- (3) The information required by paragraph 1 of Part IV of this Schedule need not be given.

PART III

NOTES ON THE BALANCE SHEET FORMAT

- (1) *Concessions, patents, licences, trade marks and similar rights and assets*
(Assets item A.2)

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

Amounts in respect of assets must only be included in a society's balance sheet under this item if either:

- (a) the assets were acquired for valuable consideration and are not required to be shown under goodwill; or
- (b) the assets in question were created by the society itself.

(2) *Goodwill*

(Assets item A.3)

Amounts representing goodwill must only be included to the extent that the goodwill was acquired for valuable consideration.

(3) *Land and buildings*

(Assets item B.I)

The amount of any land and buildings occupied by the society for its own activities must be shown separately in the notes to the accounts.

(4) *Significant investments in other associated bodies*

(Asset item B.II.3)

An investment is significant if it falls within the description in paragraph 5(2) of Schedule 5 below.

(5) *Debt securities and other fixed income securities*

(Assets item B.III.2)

This item must comprise transferable debt securities and any other transferable fixed income securities issued by credit institutions, other undertakings or public bodies, in so far as they are not covered by Assets item B.II.1.(b), B.II.2.(b) or B.II.3.(b).

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, must also be regarded as debt securities and other fixed income securities and so be included under this item.

(6) *Participation in investment pools*

(Assets item B.III.3)

This item must comprise shares held by the society in joint investments constituted by several undertakings or pension funds, the management of which has been entrusted to one of those undertakings or to one of those pension funds.

(7) *Loans secured by mortgages and other loans*

(Assets items B.III.4 and B.III.5)

Loans to members or policy holders for which the policy is the main security must be included under "Other loans" and their amount must be disclosed in the notes to the accounts. Loans secured by mortgage must be shown as such even where they also secured by insurance policies. Where the amount of "Other loans" not secured by policies is material, an appropriate breakdown must be given in the notes to the accounts.

(8) *Deposits with credit institutions*

(Assets item B.III.6)

This item must comprise sums the withdrawal of which is subject to a time restriction. Sums deposited with no such restriction must be shown under Assets item F.III even if they bear interest.

(9) *Other*

(Assets item B.III.7)

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

This item must comprise those investments which are not covered by Assets items B.III.1 to 6. Where the amount of such investments is significant, they must be disclosed in the notes to the accounts.

(10) *Deposits with ceding undertakings*

(Assets item B.IV)

Where the society accepts reinsurance this item must comprise amounts, owed by the ceding undertakings and corresponding to guarantees, which are deposited with those ceding undertakings or with third parties or which are retained by those undertakings.

These amounts may not be combined with other amounts owed by the ceding insurer to the reinsurer or set off against amounts owed by the reinsurer to the ceding insurer.

Securities deposited with ceding undertakings or third parties which remain the property of the society must be entered in the society's accounts as an investment, under the appropriate item.

(11) *Assets held to cover linked liabilities*

(Assets item C)

In respect of long term business, this item must comprise investments made pursuant to long term policies under which the benefits payable to the member or policy holders are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

This item must also comprise investments which are held on behalf of the members or policy holders of a tontine and are intended for distribution among them.

(12) *Reinsurance amounts*

(Assets item D: Liabilities items C.1(b), 2(b), 3(b), 4(b) and 5(b) and D(b))

The reinsurance amounts may be shown either under Assets item D or under Liabilities items C.1(b), 2(b), 3(b), 4(b) and 5(b) and D(b).

The reinsurance amounts must comprise the actual or estimated amounts which, under contractual reinsurance arrangements, are deducted from the gross amounts of technical provisions.

As regards the provision for unearned premiums, the reinsurance amounts must be calculated according to the methods referred to in paragraph 35 of Schedule 6 below or in accordance with the terms of the reinsurance policy.

(13) *Debtors*

(Assets item E)

Amounts owed by jointly controlled bodies and subsidiaries must be shown separately as sub-items of Assets E.I, II and III.

(14) *Other*

(Asset item F.IV)

This item must comprise those assets which are not covered by Assets items F.I to III. Where such assets are material they must be disclosed in the notes to the accounts.

(15) *Accrued interest and rent*

(Assets item G.I)

This item must comprise those items that represent interest and rent that have been earned up to the balance-sheet date but have not yet become receivable.

(16) *Deferred acquisition costs*

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

(Assets item G.II)

This item must comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year (“deferred acquisition costs”), except in so far as:

- (a) allowance has been made in the computation of the long term business provision made under paragraph 37 of Schedule 6 below and shown under Liabilities item C2 or D in the balance sheet, for:
 - (i) the explicit recognition of such costs; or
 - (ii) the implicit recognition of such costs by virtue of the anticipation of future income from which such costs may prudently be expected to be recovered; or
- (b) allowance has been made for such costs in respect of general business policies by a deduction from the provision for unearned premiums made under paragraph 35 of Schedule 6 below and shown under Liabilities item C.1 in the balance sheet.

Deferred acquisition costs arising in general business must be distinguished from those arising in long term business.

In the case of general business, the amount of any deferred acquisition costs must be established on a basis compatible with that used for unearned premiums.

There must be disclosed in the notes to the accounts how the deferral of acquisition costs has been treated (unless otherwise expressly stated in the accounts), and:

- (a) where such costs are included as a deduction from the provisions at Liabilities item C.1, the amount of such deduction; or
- (b) where the actuarial method used in the calculation of the provisions at Liabilities item C.2 or D has made allowance for the explicit recognition of such costs, the amount of the costs so recognised.

(17) *Subordinated liabilities*

(Liabilities item B)

This item must comprise all liabilities in respect of which there is a contractual obligation that, in the event of winding up or of dissolution, they are to be repaid only after the claims of all other creditors have been met (whether or not they are represented by certificates).

(18) *Fund for future appropriations*

(Liabilities item Ba)

This item must comprise all funds the allocation of which to members or policy holders has not been determined by the end of the financial year.

Transfers to and from this item must be shown in item II.12a in the income and expenditure account.

(19) *Provision for unearned premiums*

(Liabilities item C.1)

In the case of long term business the provision for unearned premiums may be included in Liabilities item C.2 rather than in this item.

The provision for unearned premiums must comprise the amount representing that part of gross premiums written which is estimated to be earned in the following financial year or to subsequent financial years.

(20) *Long term business provision*

(Liabilities item C.2)

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

This item must comprise the actuarially estimated value of the society's liabilities (excluding technical provisions included in Liabilities item D), including bonuses already declared and after deducting the actuarial value of future premiums.

This item must also comprise claims incurred but not reported, plus the estimated costs of settling such claims.

(21) *Claims outstanding*

(Liabilities item C.3)

This item must comprise the total estimated ultimate cost to the society of settling all claims arising from events which have occurred up to the end of the financial year (including, in the case of general business, claims incurred but not reported) less amounts already paid in respect of such claims.

(22) *Provision for bonuses and rebates*

(Liabilities item C.4)

This item must comprise amounts intended for members or policy holders by way of bonuses and rebates as defined in Note (5) on the income and expenditure account format to the extent that such amounts have not been credited to members or policy holders, or included in Liabilities item Ba or in Liabilities item C.2.

(23) *Other technical provisions*

(Liabilities item C.5)

This item must comprise, inter alia, the provision for unexpired risks as defined in paragraph 8 of Schedule 9 below. Where the amount of the provision for unexpired risks is significant, it must be disclosed separately either in the balance sheet or in the notes to the accounts.

(24) *Technical provisions for linked liabilities*

(Liabilities item D)

This item must comprise technical provisions constituted to cover liabilities relating to investment in the context of long term policies under which the benefits payable to members or policy holders are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

Any additional technical provisions constituted to cover death risks, operating expenses or other risks (such as benefits payable at the maturity date or guaranteed surrender values) must be included under Liabilities item C.2.

This item must also comprise technical provisions representing the obligations of a tontine's organiser in relation to its members or policy holders.

(25) *Deposits received from reinsurers*

(Liabilities item F)

Where the society cedes reinsurance, this item must comprise amounts deposited by or withheld from other insurance undertakings under reinsurance contracts. These amounts may not be merged with other amounts owed to or by those other undertakings.

Where the society cedes reinsurance and has received as a deposit securities which have been transferred to its ownership, this item must comprise the amount owed by the society by virtue of the deposit.

(26) *Creditors*

(Liabilities item G)

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Amounts owed to jointly controlled bodies and subsidiaries must be shown separately as sub-items.

(27) *Debenture loans*

(Liabilities item G.III)

The amount of any convertible loans must be shown separately.

PART IV

SPECIAL RULES FOR BALANCE SHEET FORMAT

Additional items

1. A society which carries on long term business must show separately, in the balance sheet or in the notes to the accounts, the total amount of assets representing the long term fund valued in accordance with the provisions of this Schedule.

Managed funds

2.—(1) For the purposes of this paragraph “managed funds” are funds of a group pension fund:

- (a) which fall within Class VII of Head A of Schedule 2 to the Act;
- (b) which the society administers in its own name but on behalf of others; and
- (c) to which the society has legal title.

(2) The society must in any case where assets and liabilities arising in respect of managed funds fall to be treated as assets and liabilities of the society, adopt the following accounting treatment: assets and liabilities representing managed funds are to be included in the society’s balance sheet, with the 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 item in respect of such assets or (as the case may be) liabilities.

Deferred acquisition costs

3. The costs of acquiring insurance policies which are incurred during a financial year but which relate to a subsequent financial year must be deferred in a manner specified in Note (16) on the balance sheet format.

SCHEDULE 3

Regulations 4 and 5

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

General Rules

1.—(1) The consolidated income and expenditure account and the consolidated balance sheet must incorporate in full the information contained in the individual accounts of the subsidiaries 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.

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(2) If the financial year of a subsidiary included in the consolidation differs from that of the society, the group accounts must be made up:

- (a) from the accounts of the subsidiary 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 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 a subsidiary according to accounting rules differing from those used in the annual accounts of a group accounts society, the values or amounts must 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 committee of management 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 must 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 as a whole of the matters set out in subsections (2) and (3) of section 70 of the Act.

(3) Any differences of accounting rules as between a society's individual accounts for a financial year and its consolidated accounts must 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 subsidiaries included in the consolidation, and income and expenditure relating to transactions between such subsidiaries, must be eliminated in preparing the consolidated accounts.

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

(3) The elimination required by subparagraph (2) may be effected in proportion to the society's interest in the shares of the subsidiaries.

(4) Subparagraphs (1) and (2) need not be complied with:

- (a) where a transaction has been concluded according to normal market conditions and a policy holder has rights in respect of that transaction; or
- (b) if the amounts concerned are not material for the purpose of giving a true and fair view.

(5) Where advantage is taken of sub-paragraph (4)(a) above that fact must be disclosed in the notes to the accounts, and where the transaction in question has a material effect on the assets, liabilities, financial position and profit or loss of all the subsidiaries included in the consolidation that fact must also be so disclosed.

Acquisition accounting

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

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

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7. An acquisition must be accounted for by the acquisition method of accounting.
 - 8.—(1) The acquisition method of accounting is as follows.
 - (2) The identifiable assets and liabilities of the body corporate acquired must 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 body corporate acquired means the assets or liabilities which are capable of being disposed of or discharged separately, without disposing of a business of the body corporate.
 - (4) The income and expenditure of the body corporate acquired must be brought into the annual accounts of a group accounts society only as from the date of the acquisition.
 - (5) There must be set off against the acquisition cost of the interest in the shares of the body corporate held by the society and its subsidiaries, the interest of the society and its subsidiaries in the adjusted capital and reserves of the body corporate 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 body corporate acquired means its capital and reserves at the date of the acquisition after adjusting the identifiable assets and liabilities of the body corporate to fair value as at that date.
 - (6) The resulting amount must be treated, if positive, as goodwill, and if negative as a negative consolidation difference.
 - 9.—(1) The following information with respect to acquisitions taking place in the financial year must be given in a note to the accounts:
 - (a) the name of the body corporate acquired; and
 - (b) whether the acquisition was accounted for by the acquisition method.(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 must be given:
 - (a) the composition and fair value of the consideration for the acquisition given by the society and its subsidiaries;
 - (b) the profit and loss of the body corporate or group acquired:
 - (i) for the period from the beginning of the financial year of the body corporate up to the date of the acquisition;
 - (ii) for the previous financial year of that body corporate; and
 - (iii) the date on which the financial year referred to in (i) began; and
 - (c) 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 body corporate 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.
 - (3) In ascertaining for the purposes of subparagraph (2)(b) and (2)(c) the profit or loss of a group, 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 must be made.
- 10.—(1) There must 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.

(2) That figure must be shown net of any goodwill attributable to subsidiaries disposed of prior to the balance sheet date.

11. Where during the financial year there has been a disposal of a subsidiary which significantly affects the figures shown in the annual accounts of a group accounts society, there must be stated in a note to the accounts:

- (a) the name of that subsidiary; and
- (b) the extent to which the income or expenditure shown in the group accounts is attributable to profit or loss of the subsidiaries.

12. The information required by paragraphs 9, 10, or 11 need not be disclosed with respect to a subsidiary 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 committee of management of the society the disclosure would be seriously prejudicial to the business of that subsidiary or to the business of the society or any of its subsidiaries and the Commission agrees that the information should not be disclosed.

Minority interests

13.—(1) Under item 10b of the non-technical account in Part II of Schedule 1 must be shown the amount of any income or expenditure on ordinary activities attributable to shares in subsidiaries included in the consolidation held by or on behalf of persons other than the society and its subsidiaries.

(2) Under item 14c of the non-technical account in Part II of Schedule 1 must be shown the amount of any gain or loss on extraordinary activities attributable to shares in subsidiaries included in the consolidation held by or on behalf of persons other than the society and its subsidiaries.

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

SCHEDULE 4

Regulation 8

NOTES TO ANNUAL ACCOUNTS

Accounting policies

1.—(1) There must 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 accounts and the balance sheet.

(2) It must be stated whether the accounts have been prepared in accordance with applicable accounting standards; particulars of any material departure from these standards and the reasons for such departure must be given.

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Sums denominated in foreign currencies

2. Where any sums originally denominated in foreign currency have been brought into account under any items shown in the balance sheet and income and expenditure account, the basis on which those sums have been translated into sterling must be stated.

Staff

- 3.—(1) The following information must be given with respect to the staff 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 subparagraph (1)(a) or (b) must be determined by dividing the relevant annual number by the number of complete months in the financial year, and that relevant annual number must be determined by ascertaining for each complete calendar month in the financial year:

- (a) for the purpose of subparagraph (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 subparagraph (1)(b), the number of persons in each such category of person so employed, and, in each 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 must also be stated the aggregate amounts respectively of:

- (a) wages and salaries paid or payable in respect of that year to those persons;
- (b) social security costs incurred by the 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 subparagraph (1)(b) is to be determined such as to assist the assessment of the manner in which the society's activities are organised.

Aggregate amount of committee members' emoluments

- 4.—(1) The aggregate amount of committee members' emoluments must be shown.

(2) In subparagraph (1), "committee members' emoluments" means the emoluments paid to or receivable by any person in respect of:

- (a) his services as a committee member of the society; or
- (b) his services while committee member of the society:
 - (i) as director of any of its associated bodies; or
 - (ii) otherwise in connection with the management of the affairs of the society or any of its associated bodies.

(3) There must also be shown, separately, the aggregate amount within subparagraph 2(a) and 2(b)(i) and the aggregate amount within subparagraph 2(b)(ii).

- (4) For the purposes of this paragraph the "emoluments" of a person include:

- (a) fees and percentages;
- (b) sums paid by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax);

- (c) contributions paid in respect of him under any pension scheme; and
- (d) the estimated money value of any other benefits received by him otherwise than in cash, and emoluments in respect of a person's accepting office as a committee member must be treated as emoluments in respect of his services as a committee member.

Details of chairman's and committee members' emoluments

5.—(1) Where the amount shown in compliance with paragraph 4(1) is £60,000 or more, the emoluments of the chairman must be shown.

(2) Where subparagraph (1) requires an amount to be shown and there has been more than one chairman during the year, the emoluments of each must be stated so far as attributable to the period during which he was chairman.

(3) Where the amount shown in compliance with paragraph 4(1) is £60,000 or more, the following information must be given with respect to the emoluments of committee members:

- (a) the number of committee members whose emoluments fell within each of the following bands:
 - (i) not more than £5,000;
 - (ii) more than £5,000 but not more than £10,000;
 - (iii) more than £10,000 but not more than £15,000,and so on; and

- (b) if the emoluments of any of the committee members exceeded that of the chairman, the greatest amount of emoluments of any committee member.

(4) Where more than one person has been chairman during the year, the reference in subparagraph (3)(b) to the emoluments of the chairman is to the aggregate of the emoluments of each person who has been chairman, so far as attributable to the period during which he was chairman.

(5) The information required by subparagraph (3)(a) need not be given in respect of a committee member who discharged his duties as such wholly or mainly outside the United Kingdom; and any such committee member must be left out of account for the purposes of subparagraph (3)(b).

(6) In this paragraph "emoluments" has the same meaning as in paragraph 4, except that it does not include contributions paid in respect of a person under a pension scheme.

Emoluments waived

6.—(1) There must be shown:

- (a) the number of committee members who have waived rights to receive emoluments in the present financial year or in the future which, but for the waiver, would have fallen to be included in the amount shown under paragraph 4(1) in the present annual accounts or in future annual accounts; and
- (b) the aggregate amount of those emoluments.

(2) For the purposes of this paragraph it must be assumed that a sum not receivable in respect of a period would have been paid at the time at which it was due, and if such sum was payable only on demand, it must be deemed to have been due at the time of the waiver.

Pensions of committee members and past committee members

7.—(1) There must be shown the aggregate amount of committee members' or past committee members' pensions.

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(2) This amount does not include any pension paid or receivable under a pension scheme if the scheme is such that the contributions under it are substantially adequate for the maintenance of the scheme, but, subject to this, it includes any pension paid or receivable in respect of any such services of a committee member or past committee member as are mentioned in paragraph 4(2) whether to or by him or on his nomination or by virtue of dependence on or other connection with him, to or by any other person.

(3) The amount shown must distinguish between pensions in respect of services as a committee member of the society or a director of any of its associated bodies, and other pensions.

(4) References to pensions include benefits otherwise than in cash and in relation to so much of a pension as consists of such a benefit references to its amount are to the estimated money value of the benefit.

(5) The nature of any such benefit as is mentioned in subparagraph (4) must be disclosed.

Compensation to committee members for loss of office

8.—(1) There must be shown the aggregate amount of any compensation to committee members or past committee members in respect of loss of office.

(2) This amount includes compensation received or receivable by committee members or past committee members for:

- (a) loss of office as a committee member of the society; or
- (b) loss, while committee member of the society or in connection with his ceasing to be a committee member 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 associated body of the society,

and must distinguish between compensation in respect of the office of committee member of the society or a director of any of its associated bodies, and compensation in respect of other offices.

(3) References to compensation include benefits otherwise than in cash, and in relation to such compensation:

- (a) references to its amount are to the estimated money value of the benefit; and
- (b) the nature of the compensation must be disclosed.

(4) References to compensation for loss of office include compensation in consideration for, or in connection with, a person's retirement from office.

Sums paid to third parties in respect of committee members' services

9.—(1) There must 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 committee member of the society; or
- (b) while a committee member of the society:
 - (i) as director of any of its associated bodies; or
 - (ii) otherwise in connection with the management of the affairs of the society or any of its associated bodies.

(2) The reference in subparagraph (1) to consideration includes benefits paid or receivable otherwise than in cash, and in relation to such consideration:

- (a) references to its amount are to the estimated money value of the benefit; and

- (b) the nature of the consideration must be disclosed.
- (3) The reference in subparagraph (1) to third parties is to person other than:
 - (a) the committee member himself or a person connected with him or a body corporate associated with him; and
 - (b) the society or any of its associated bodies.

Supplementary provisions regarding committee members' emoluments

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

- (2) The amount in each case includes all relevant sums paid by or receivable from:
 - (a) the society;
 - (b) the society's associated bodies; and
 - (c) any other person, except sums to be accounted for to the society or any of its associated bodies.

(3) The amount to be shown under paragraph 8 must distinguish between the sums respectively paid by or receivable from the society, its associated bodies, and person other than the society and its associated bodies.

(4) 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).

11.—(1) The amounts to be shown for any financial year under paragraphs 4, 5, 8 and 9 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 10(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 must, 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 must be distinguished from the amounts to be shown apart from this provision.

12. Where the Chief Executive of the society is not also a committee member of the society, he must be deemed, for the purposes of paragraphs 4 to 11 to be a committee member of the society. In such circumstances there must be a note in the accounts specifying that the Chief Executive has been so deemed to be a committee member.

13. Regulation 8(2)(b) does not apply to paragraphs 4 to 12.

Interpretation of provisions regarding committee members' emoluments

- 14.**—(1) In paragraphs 4 to 13:
 - (a) references to services to an associated body of a society must be taken to refer to services to a body which was an associated body of the society at the time at which the services were rendered, or, in the case only of paragraph 8, immediately before the committee member lost his office as committee member;

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- (b) “pension” includes any superannuation allowance, superannuation gratuity or similar payment;
- (c) “pension scheme” means a scheme for the provision of pensions in respect of services as committee member or otherwise which is maintained in whole or in part by means of contributions; and
- (d) “contribution”, in relation to a pension scheme, means any payment (including an insurance premium) paid for the purposes of the scheme by or in respect of persons rendering services in respect of which pensions will or may become payable under the scheme except that it does not include any payment in respect of two or more persons if the amount paid in respect of each of them is not ascertainable.

(2) In paragraphs 9 and 10, references to a person being “connected” with a committee member, and to a committee member “associated with” a body corporate, must be construed in accordance with section 70 of the Building Societies Act 1986(3) (as applied to friendly societies by paragraph 9 of Schedule 11 to the Act).

Assets

15.—(1) In respect of any assets of the society included in Assets items A (intangible assets), B.I (land and buildings) and B.II (investment in jointly controlled bodies and subsidiaries) in the society’s balance sheet the following information must be given by reference to each such item:

- (a) the appropriate amounts in respect of those assets included in the item as at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) the effect on any amount included in Assets item A in respect of those assets of:
 - (i) any determination during that year of the value to be ascribed to any of those assets in accordance with paragraph 11 of Schedule 6 below;
 - (ii) acquisitions during that year of any assets;
 - (iii) disposals during that year of any assets; and
 - (iv) any transfers of assets of the society to and from the item during that year.

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

- (a) on the basis of cost (determined in accordance with paragraphs 27 and 28 of Schedule 6 below); or
- (b) on any basis permitted by paragraph 10 or 11 of Schedule 6 below (leaving out of account in either case any provisions for depreciation or diminution in value).

(3) In addition, in respect of any assets of the society included in any assets item in the society’s balance sheet, there must be stated (by reference to each such item):

- (a) the cumulative amount of provisions for depreciation or diminution in value of those assets included under the 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.

(3) 1986 c. 53.

16. Where any 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 10 or 11 of Schedule 6 below, the following information must be given:

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

17. In relation to any amount which is included under Asset item B.I (land and buildings) there must 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.

Investments

18.—(1) In respect of the amount of each item which is shown in the society's balance sheet under Assets item B (investments), or in the case of a non-directive society's balance sheet, Assets item A (investments), there must be stated:

- (a) how much of that amount is ascribable to listed investments; and
- (b) how much of any amount so ascribable is ascribable to investments as respects which there has been granted a listing on a recognised investment exchange other than an overseas investment exchange within the meaning of the Financial Services Act 1986(4) and how much to other listed investments.

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

Reserves and provisions

19.—(1) Where any amount is transferred:

- (a) to or from any reserves;
- (b) to any provisions for liabilities and charges; or
- (c) from any provision for liabilities and charges otherwise than for the purpose for which the provision was established,

and the reserves or provisions are or would but for regulation 6(3) above be shown as separate items in the society's balance sheet, the information mentioned in the following sub-paragraph must 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) That information required by this 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; and
- (b) any amounts transferred to or from the reserves or provisions during that year.

(4) 1986 c. 60.

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(3) Particulars must be given of each provision included in Liabilities item E.3 (other provisions) in the society's balance sheet in any case where the amount of that provision is material.

Provision for taxation

20. The amount of any provision for deferred taxation must be stated separately from the amount of any provision for other taxation.

Details of indebtedness

21.—(1) In respect of each item shown under "creditors" in the society's balance sheet there must be stated:

- (a) the aggregate amount of any debts included under that item which are payable or repayable otherwise than by instalments and fall due for payment or repayment after the end of the period of five years beginning with the day next following the end of the financial year; and
- (b) the aggregate amount of any debts so included which are payable or repayable by instalments any of which fall due for payment after the end of that period, and in the case of debts within sub-paragraph (b) above the aggregate amount of instalments falling due after the end of that period must also be disclosed for each such item.

(2) Subject to sub-paragraph (3), in relation to each debt falling to be taken into account under sub-paragraph (1), the terms of payment or repayment and the rate of any interest payable on the debt must be stated.

(3) If the number of debts is such that, in the opinion of the committee members, compliance with sub-paragraph (2) would result in a statement of excessive length, it must be sufficient to give a general indication of the terms or repayment and the rates of any interest payable on the debts.

(4) In respect of each item shown under "creditors" in the society's balance sheet there must be stated:

- (a) the aggregate amount of any debts included under that item in respect of which any security has been given by the society; and
- (b) an indication of the nature of the securities so given.

(5) References above in this paragraph to an item shown under "creditors" in the society's balance sheet include references, where amounts falling due to creditors within one year and after more than one year are distinguished in the balance sheet:

- (a) in a case within sub-paragraph (1), to an item shown under the latter of those categories; and
- (b) in a case within sub-paragraph (4), to an item shown under either of those categories,

and references to items shown under "creditors" include references to items which would but for Regulation 6(3) above be shown under that heading.

Guarantees and other financial commitments

22.—(1) Particulars must 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.

(2) The following information must be given with respect to any other contingent liability not provided for (other than a contingent liability arising out of an insurance contract):

- (a) the amount or estimated amount of that liability;
- (b) its legal nature;

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- (c) whether any valuable security has been provided by the society in connection with that liability and if so, what.
- (3) There must be stated, where practicable:
 - (a) the aggregate amount or estimated amount of contracts for capital expenditure, so far as not provided for in the balance sheet; and
 - (b) the aggregate amount or estimated amount of capital expenditure authorised by the committee of management which has not been contracted for.
- (4) Particulars must be given of:
 - (a) any pension commitments included under any provision shown in the society's balance sheet; and
 - (b) any such commitments for which no provision has been made,and where any such commitment relates wholly or partly to pensions payable to past committee members of the society separate particulars must be given of that commitment so far as it relates to such pensions.
- (5) Particulars must also be given of any other financial commitments, other than commitments arising out of insurance contracts, which:
 - (a) have not been provided for in the balance sheet; and
 - (b) are relevant to assessing the society's state of affairs.
- (6) Commitments within any of the preceding subparagraphs undertaken on behalf of or for the benefit of any subsidiary of the society, must be stated separately from the other commitments.

Dealings with or interests in subsidiaries and jointly controlled bodies

23. Where a society is required by Part I of Schedule 2 to be shown in the society's balance sheet in relation to its subsidiary and jointly controlled bodies includes:

- (a) amounts attributable to dealings with or interests in subsidiary or jointly controlled body; or
- (b) amounts attributable to dealings with or interests in any subsidiary of the society,

the aggregate amounts within paragraphs (a) and (b) respectively must be shown as separate items, either by way of subdivision of the relevant item in the balance sheet or in a note to the society's accounts.

Separate statement of certain items of income and expenditure

24.—(1) Subject to the following provisions of this paragraph, each of the amounts mentioned below must be stated.

- (2) The amount of the interest or any similar charges in respect of:
 - (a) bank loans and overdrafts, and loans made to the society (other than bank loans and overdrafts) which:
 - (i) are repayable otherwise than by instalments and fall due for repayment before the end of the period of five years beginning with the day next following the end of the financial year; or
 - (ii) are repayable by instalments the last of which falls due for payment before the end of that period; and
 - (b) loans of any other kind made to the society.

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This sub-paragraph does not apply to interest or charges on loans to the society from jointly controlled bodies and subsidiaries, but, with that exception, it applies to interest or charges on all loans, whether made on the security of debenture or not.

(3) The amount of income from listed investments.

(4) The amount charged to revenue in respect of sums payable in respect of the hire of plant and machinery and vehicles.

Taxation

25.—(1) The basis on which the charge for United Kingdom corporation tax and deferred tax is computed must be stated.

(2) Particulars must be given of any special circumstances which affect liability in respect of taxation of income or capital gains for the financial year or liability in respect of taxation of income or capital gains for succeeding financial years.

(3) The following amounts must be stated:

- (a) the amount of the charge for United Kingdom corporation tax;
- (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 of income and (so far as charged to revenue) capital gains.

Those amounts must be stated separately in respect of each of the amounts which is shown under the following items in the income and expenditure account, that is to say item III.9 (tax on ordinary activities) and item III.14 (tax on extraordinary gain or loss).

Particulars of business

26.—(1) As regards general business a society must disclose:

- (a) gross premiums written;
- (b) gross premiums earned;
- (c) gross claims incurred;
- (d) gross operating expenses; and
- (e) the reinsurance balance.

(2) The amounts required to be disclosed by sub-paragraph (1) must be broken down between direct insurance and reinsurance acceptances, if reinsurance acceptances amount to 10 per cent. or more of gross premiums written.

(3) Subject to sub-paragraph (4) below, the amounts required to be disclosed by sub-paragraphs (1) and (2) above with respect to direct insurance must be further broken down into the following groups of classes:

- (a) accident;
- (b) sickness; and
- (c) miscellaneous financial loss,

where the amount of the gross premiums written in direct insurance for each such group exceeds 10 million ECUs.

(4) The society must in any event disclose the amounts relating to the three largest groups of classes in its business.

27.—(1) As regards long term business, the society must disclose:

- (a) gross premiums written; and
- (b) the reinsurance balance.

(2) Subject to sub-paragraph (3) below:

- (a) gross premiums written must be broken down between those written by way of direct insurance and those written by ways of reinsurance; and
- (b) gross premiums written by way of direct insurance must be broken down:
 - (i) between individual premiums and premiums under group contracts;
 - (ii) between periodic premiums and single premiums; and
 - (iii) between premiums from non-participating contracts, premiums from participating contracts and premiums from contracts where the investment risk is borne by members or policy holders.

(3) Disclosure of any amount referred to in sub-paragraph (2)(a) or (2)(b)(i), (ii) or (iii) above must not be required if it does not exceed 10 per cent. of the gross premiums written or (as the case may be) of the gross premiums written by way of direct insurance.

28.—(1) Subject to sub-paragraph (2) below, there must be disclosed as regards both general and long term business the total gross direct insurance premiums resulting from contracts concluded by the society:

- (a) in the member State of its head office;
- (b) in the other member States; and
- (c) in other countries.

(2) Disclosure of any amount referred to in sub-paragraph (1) above would not be required if it does not exceed 5 per cent. of total gross premiums.

Commissions

29. There must be disclosed the total amount of commissions for direct insurance business accounted for in the financial year, including acquisition, renewal, collection and portfolio management commissions.

Miscellaneous matters

30.—(1) Where any amount relating to any preceding financial year is included in any item in the income and expenditure account, the effect must be stated.

(2) Particulars must be given of any extraordinary income or charges arising in the financial year.

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

(4) Particulars must be given of any case where the cost of any asset is for the first time determined under paragraph 29 of Schedule 6 below.

(5) There must be shown the amount of the remuneration of the auditors and their associates (and where remuneration is paid to auditors or their associates for non-audit services, that remuneration must be shown separately) and actuaries, including any sums paid by the society in respect of the auditors' or actuary's expenses.

(6) For the purpose of determining whether a person is to be regarded as an associate of a society's auditor and for determining the remuneration paid to auditors or their associates for non-audit

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services, the Companies Act 1985 (Disclosure of Remuneration for Non-audit Work) Regulations 1991⁽⁵⁾ have effect as if any reference to a company includes a reference to a society.

(7) Where management and agency services are provided by the society to third parties that fact must be disclosed where the scale of such services is material in the context of the society's business as a whole.

Committee members' loans and transactions

31.—(1) This paragraph applies, subject to subparagraph (5), in relation to:

- (a) loans from and other transactions and arrangements with the society described in section 65 of the Building Societies Act 1986⁽⁶⁾ (as applied to friendly societies by paragraph 9 of Schedule 11 to 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 Building Societies Act 1986 (as applied to friendly societies by paragraph 9 of Schedule 11 to the Act) applies; and
- (b) in the case of a group accounts society, loans from and other transactions and arrangements with a subsidiary of the society to which paragraph (a) would apply were the society rather than the subsidiary a party to them.

(2) The notes to the annual accounts must 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 must, 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 Building Societies Act 1986 (as applied to friendly societies by paragraph 9 of Schedule 11 to 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 subparagraph (1)(b), its particulars shall be disclosed unless it was one which would, had the subsidiaries of the society formed part of the society, have been expected from the obligations imposed by section 68 of the Building Societies Act 1986 (as applied to friendly societies by paragraph 9 of Schedule 11 to the Act).

(4) Regulation 8(2)(b) does 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 committee member of the society where the society (or in the case of a subsidiary incorporated in the United Kingdom, the subsidiary) has notice of the connection between that committee member and that person.

Industrial Assurance

32. Where a society transacts industrial assurance business, the industrial assurance fund maintained in accordance with section 8 of the Industrial Assurance Act 1923⁽⁷⁾ may be shown.

⁽⁵⁾ S.I. 1991 No. 2128.

⁽⁶⁾ 1986 c. 53.

⁽⁷⁾ 13 and 14 Geo. 5 C.8.

SCHEDULE 5

Regulation 9

NOTES TO ANNUAL ACCOUNTS: INFORMATION
IN RESPECT OF ASSOCIATED BODIES

PART I

SOCIETIES NOT REQUIRED TO PREPARE CONSOLIDATED ACCOUNTS

Subsidiaries

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

(2) The name of each subsidiary must be stated.

(3) There must be stated with respect to each subsidiary:

- (a) if it is incorporated outside the United Kingdom, the country in which it is incorporated; or
- (b) if it is incorporated in the United Kingdom, whether it is registered in England and Wales, Scotland, or in Northern Ireland.

Holdings in subsidiaries

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

- (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 must be distinguished from those attributed to the society which are held by or on behalf of a subsidiary.

Financial years of subsidiaries

3.—(1) Where the financial year of one or more subsidiaries did not end with that of the society, there must be stated in relation to each such subsidiary:

- (a) the reasons why the society's committee of management considers that its financial year should not end with that of the society; and
- (b) the date on which its last financial year ended (last before the end of the society's financial year).

(2) Instead of the dates required by subparagraph (1)(b) being given for each subsidiary, the earliest and latest of those dates may be given.

Further information about subsidiaries

4.—(1) There must be disclosed:

- (a) any qualifications contained in the auditors' reports on the accounts of subsidiaries for financial years ending with or during the financial year of the society; and
- (b) any note or saving contained in such accounts to call attention to a matter which, apart from the note or saving, would properly have been referred to in such a qualification,

in so far as the matter which is the subject of the qualification or note is not covered by the society's own accounts and is material from the point of view of its members.

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(2) The aggregate amount of the total investment of the society in the shares of subsidiaries must be stated by way of the equity method of valuation, unless the committee of management state their opinion that the aggregate value of the assets of the society consisting of shares in, or amounts owing (whether on account of a loan or otherwise) from, the society's subsidiaries is not less than aggregate of the amounts at which those assets are stated or included in the society's balance sheet.

(3) In so far as information required by this paragraph is not obtainable, a statement to that effect must be given instead.

Significant holdings in bodies corporate other than subsidiaries

5.—(1) The information required by paragraphs 6 and 7 must be given where at the end of the financial year the society has a significant holding in a body corporate which is not a subsidiary 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 body corporate; or
- (b) the amount of the holding (as stated or included in the society's accounts) exceeds one-tenth of the amount (as so stated) of the society's assets.

6.—(1) The name of the body corporate must be stated.

(2) There must be stated:

- (a) if the body corporate is incorporated outside the United Kingdom, the country in which it is incorporated; and
- (b) if it is incorporated in the United Kingdom, whether it is registered in England and Wales, Scotland, or in Northern Ireland.

(3) There must also be stated:

- (a) the identity of each class of shares in the body corporate held by the society; and
- (b) the proportion of the nominal value of the shares of that class represented by those shares;
- (c) the aggregate amount of the capital and reserves of the body corporate as at the end of its relevant financial year; and
- (d) its profit or loss for that year.

7.—(1) Where the society has a significant holding in a body corporate amounting to 20 per cent. or more of the nominal value of the shares in the body corporate, there must also be stated:

- (a) the aggregate amount of the capital and reserves of the body corporate 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 bodies corporate in which it has such a holding as is mentioned in subparagraph (1) is shown, in aggregate, in the notes to the accounts by way of the equity method of valuation.

(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) and (3) of section 70 of the Act.

(4) For the purpose of this paragraph the "relevant financial year" of a body corporate 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 must be construed as follows.

(2) For the purposes of paragraphs 2 to 4:

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

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

- (a) there must be attributed to the society shares held on its behalf by any person; and
- (b) there must 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 must 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.

PART II

SOCIETIES REQUIRED TO PREPARE CONSOLIDATED ACCOUNTS

Subsidiaries

9.—(1) The following information must be given with respect to the bodies corporate which are subsidiaries of the society at the end of the financial year.

(2) The name of each body corporate must be stated.

(3) There must be stated:

- (a) if the body is incorporated outside the United Kingdom, the country in which it is incorporated; or
- (b) if it is incorporated in the United Kingdom, whether it is registered in England and Wales, Scotland or in Northern Ireland.

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

(5) It must be stated with respect to each subsidiary by virtue of which of the conditions specified in section 13(9) of the Act it is a subsidiary of the society.

(6) That information need not be given if the relevant condition is that specified in paragraph (a) of subsection 9 of that section and the society holds the same proportion of the shares in the subsidiary as it holds voting rights.

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Holdings in subsidiaries

- 10.**—(1) The following information must be given with respect to the shares of subsidiaries held:
- (a) by the society; and
 - (b) by the group,
- and the information under paragraphs (a) and (b) must (if different) be shown separately.
- (2) There must 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 years of subsidiaries

- 11.**—(1) Where the financial year of one or more subsidiaries did not end with that of the society, there must be stated in relation to each such subsidiary:
- (a) the reasons why the society's committee of management consider that its financial year should not end with that of the society; and
 - (b) the date on which its last financial year ended (last before the end of the society's financial year).
- (2) Instead of the dates required by subparagraph (1)(b) being given for each subsidiary the earliest and latest of those dates may be given.

Further information about subsidiaries excluded from consolidation

- 12.**—(1) The following information must be given with respect to subsidiaries excluded from consolidation.
- (2) There must be disclosed:
- (a) any qualification contained in the auditor's reports on the accounts of the subsidiary for financial years ending with or during the financial year of the society; and
 - (b) any note or saving contained in such accounts to call attention to a matter which, apart from the note or saving, would properly have been referred to in such a qualification,
- in so far as the matter which is the subject of the qualification or note is not covered by the consolidated accounts and is material from the point of view of the members of the society.
- (3) In so far as information required by this paragraph is not obtainable, a statement to that effect must be given instead.

Jointly controlled bodies

- 13.**—(1) The following information must be given where a body corporate included in the consolidation has an interest in a jointly controlled body.
- (2) The name of the jointly controlled body must be stated.
- (3) There must be stated:
- (a) if the body is incorporated outside the United Kingdom, the country in which it is incorporated; and
 - (b) if it is incorporated in the United Kingdom, whether it is registered in England and Wales, Scotland or Northern Ireland.
- (4) The following information must be given with respect to the shares of the body corporate held:
- (a) by the society; and

(b) by the group,
and the information under paragraphs (a) and (b) must be given separately.

(5) There must 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) In this paragraph “jointly controlled body” has the meaning given by the Act and the information required by this paragraph must be given notwithstanding that Regulation 7(8) applies in relation to the accounts themselves.

Other significant holdings of society or group

14.—(1) The information required by paragraphs 15 and 16 must be given where at the end of the financial year the society has a significant holding in a body corporate which is not one of its subsidiaries and does not fall within paragraph 13 (jointly controlled bodies).

(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 body corporate;
or
- (b) the amount of the holding (as stated or included in the society’s individual accounts) exceeds one-tenth of the amount of its assets (as so stated).

15.—(1) The name of the body corporate must be stated.

(2) There must be stated:

- (a) if the body is incorporated outside the United Kingdom, the country in which it is incorporated; and
- (b) if it is incorporated in the United Kingdom, whether it is registered in England and Wales, Scotland or in Northern Ireland.

(3) The following information must be given with respect to the shares of the body corporate held by the society.

(4) There must 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.

16.—(1) Where the society has a significant holding in a body corporate amounting to 20 per cent. or more of the nominal value of the shares in the body corporate there must also be stated:

- (a) the aggregate amount of the capital and reserves of the body corporate 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 a body corporate if:

- (a) the body corporate is not required by any provision of the Companies Act 1985⁽⁸⁾ or the Companies (Northern Ireland) Order 1986⁽⁹⁾ 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 body corporate.

⁽⁸⁾ 1985 c. 6.

⁽⁹⁾ S.I. 1986/1032 (N.I.6).

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(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 subsidiaries as a whole, of the matters set out in subsections (2) and (3) of section 70 of the Act.

(4) For the purposes of this paragraph the “relevant financial year” of a body corporate 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.

17.—(1) The information required by paragraphs 18 and 19 must be given where at the end of the financial year the group has a significant holding in a body corporate which is not a subsidiary of the society and does not fall within paragraph 13 (jointly controlled bodies).

(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 body corporate; or
- (b) the amount of the holding (as stated or included in the group accounts) exceeds one-tenth of the amount of the group’s assets (as so stated).

18.—(1) The name of the body corporate must be stated.

(2) There must be stated:

- (a) if the body is incorporated outside the United Kingdom, the country in which it is incorporated; or
- (b) if it is incorporated in the United Kingdom, whether it is registered in England and Wales, Scotland or in Northern Ireland.

(3) The following information must be given with respect to the shares of the body corporate held by the group.

(4) There must 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.

19.—(1) Where the holding of the group amounts to 20 per cent. or more of the nominal value of the shares in the body corporate, there must also be stated:

- (a) the aggregate amount of the capital and reserves of the body corporate 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 body corporate 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 body corporate.

(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 subsidiaries as a whole, of the matters set out in subsections (2) and (3) of section 70 of the Act.

(4) For the purpose of this paragraph the “relevant financial year” of a body corporate 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

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

(2) For the purposes of paragraphs 10 and 13(4) and (5) and 14 to 16:

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

(4) Shares held by way of security must 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

21. The information required by paragraphs 6, 15 and 18 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 subsidiaries, as a whole, as appropriate, of the matters set out in subsections (2) and (3) of section 70 of the Act.

22. For the purposes of paragraphs 4 and 12 of this Schedule, “qualifications” in relation to the auditors' report on the accounts of a subsidiary, means any qualifications which in the auditors' opinion indicate that the accounts concerned have not been properly prepared in accordance with the Companies Act 1985⁽¹⁰⁾; or in the case of a body corporate the accounts of which are not required to be prepared in accordance with the Companies Act 1985, indicate that those accounts have not been prepared in accordance with any corresponding legislation under which such accounts need to be prepared.

(10) 1985 c. 6.

SCHEDULE 6

Regulation 10

ACCOUNTING PRINCIPLES AND RULES

PART I

ACCOUNTING PRINCIPLES

Preliminary

1. Subject to paragraph 7 below, the amounts to be included in respect of all items shown in a society's annual accounts must be determined in accordance with the principles set out in paragraphs 2 to 6 below.

Accounting principles

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

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

4. The amount of any item must be determined on a prudent basis, and in particular:

- (a) Subject to note (9) on the income and expenditure accounts format, only income arising by the balance sheet date must 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 must be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the committee of management in pursuance of section 76 of the Act.

5. Except so far as these Regulations otherwise specify, income and charges relating to the financial year to which the accounts relate must 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 must be determined separately.

PART II

DEPARTURE FROM ACCOUNTING PRINCIPLES

7. If it appears to the committee of management of a society that there are special reasons for departing from any of the principles stated above 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 must be given in a note to the accounts.

PART III

CURRENT VALUE ACCOUNTING RULES

Preliminary

- 8.**—(1) Subject to paragraphs 15 to 17 below:
- (a) the amounts to be included in respect of assets of any description mentioned in paragraph 10 below must be determined in accordance with that paragraph; and
 - (b) subject to paragraph 9 below, the amounts to be included in respect of assets of any description mentioned in paragraph 11 below may be determined in accordance with that paragraph or the rules set out in paragraphs 18 to 31 below (“the historical cost accounting rules”).
- 9.** The same valuation method must be applied to all investments included in any item in the balance sheet format which is denoted by an arabic number.

Valuation of assets: general

- 10.**—(1) Subject to paragraph 12 below, investments falling to be included under Assets item B (investments) must be included at their current value calculated in accordance with paragraphs 13 and 14 below.
- (2) Investments falling to be included under Assets item C (assets held to cover linked liabilities) must be shown at their current value calculated in accordance with paragraphs 13 and 14 below.
- 11.**—(1) Intangible assets other than goodwill may be shown at their current cost.
- (2) Assets falling to be included under Assets items F.I (tangible assets) in the balance sheet format may be shown at their current value calculated in accordance with paragraphs 13 and 14 below or at their current cost.
- (3) Assets falling to be included under Assets item F.II (stocks) may be shown at current cost.

Alternative valuation of fixed-income securities

- 12.**—(1) This paragraph applies to debt securities and other fixed-income securities shown as assets under Assets items B.II (investments in associated bodies) and B.III (other financial investments).
- (2) Securities to which this paragraph applies may either be valued in accordance with paragraph 10 above or their amortised value may be shown in the balance sheet, in which case the provisions of this paragraph apply.
- (3) Subject to sub-paragraph (4) below, where the purchase price of securities to which this paragraph applies exceeds the amount repayable at maturity, the amount of the difference:
- (a) must be charged to the income and expenditure account; and
 - (b) must be shown separately in the balance sheet or in the notes to the accounts.
- (4) The amount of the difference referred to in sub-paragraph (3) above may be written off in instalments so that it is completely written off when the securities are repaid, in which case there must be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (less the aggregate amount written off) and the amount repayable at maturity.
- (5) Where the purchase price of securities to which this paragraph applies is less than the amount repayable at maturity, the amount of the difference must be released to income in instalments over the period remaining until repayment, in which case there must be shown separately in the balance

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sheet or in the notes to the accounts the difference between the purchase price (plus the aggregate amount released to income) and the amount repayable at maturity.

(6) Both the purchase price and the current value of securities valued in accordance with this paragraph must be disclosed in the notes to the accounts.

(7) Where securities to which this paragraph applies which are not valued in accordance with paragraph 10 above are sold before maturity, and the proceeds are used to purchase other securities to which this paragraph applies, the difference between the proceeds of sale and their book value may be spread uniformly over the period remaining until the maturity of the original investment.

Meaning of “current value”

13.—(1) Subject to sub-paragraph (5) below, in the case of investments other than land and buildings, current value must mean market value determined in accordance with this paragraph.

(2) In the case of listed investments, market value must mean the value on the balance sheet date or, when the balance sheet date is not a stock exchange trading day, on the last stock exchange trading day before that date.

(3) Where a market exists for unlisted investments, market value must mean the average price at which such investments were traded on the balance sheet date or, when the balance sheet date is not a trading day, on the last trading day before that date.

(4) Where, on the date on which the accounts are drawn up, listed or unlisted investments have been sold or are to be sold within the short term, the value must be reduced by the actual or estimated realisation costs.

(5) Except where the equity method of accounting is applied, all investments other than those referred to in sub-paragraphs (2) and (3) above must be valued on a basis which has prudent regard to the likely realisable value.

14.—(1) In the case of land and buildings, current value must mean the market value on the date of valuation, where relevant reduced as provided in sub-paragraphs (4) and (5) below.

(2) Market value must mean the price at which land and buildings could be sold under private contract between a willing seller and an arm’s length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of the sale.

(3) The market value must be determined through the separate valuation of each land and buildings item, carried out at least every five years in accordance with generally recognised methods of valuation.

(4) Where the value of any land and buildings item has diminished since the preceding valuation under sub-paragraph (3), an appropriate value adjustment must be made.

(5) The lower value arrived at under sub-paragraph (4) must not be increased in subsequent balance sheets unless such increase results from a new determination or market value arrived at in accordance with subparagraphs (2) and (3).

(6) Where, on the date on which the accounts are drawn up, land and buildings have been sold or are to be sold within the short term, the value arrived at in accordance with sub-paragraphs (2) and (4) must be reduced by the actual or estimated realisation costs.

(7) Where it is impossible to determine the market value of a land and buildings item, the value arrived at on the basis of the principle or purchase price or production cost must be deemed to be its current value.

Application of the depreciation rules

15.—(1) Where:

- (a) the value of any asset of a society is determined in accordance with paragraph 10 or 11 above; and
- (b) in the case of a determination under paragraph 10 above, the asset falls to be included under Assets item B.I.,

the value must be, or (as the case may require) 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 paragraphs 19, 23 and 25 below must 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 in accordance with paragraph 10 or 11 above (as the case may be).

(2) The amount of any provision for depreciation required in the case of any asset by paragraph 20 or 21 below 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 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.

16.—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a society's accounts have been determined in accordance with paragraph 10 or 11 above.

(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 must be disclosed in a note to the accounts.

(3) The purchase price of investments valued in accordance with paragraph 10 above must be disclosed in the notes to the accounts.

(4) In the case of each balance sheet item valued in accordance with paragraph 11 above either:

- (a) the comparable amounts determined according to the historical cost accounting rules (without any provision for depreciation or diminution in value); or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item,

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

(5) In sub-paragraph (4) above, 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.

Revaluation reserve

17.—(1) Subject to sub-paragraph (6) below, with respect to any determination of the value of an asset of a society in accordance with paragraph 10 or 11 above, the amount of any gain or loss arising

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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) must be credited or (as the case may be) debited to a separate reserve (“the revaluation reserve”).

(2) The amount of the revaluation reserve must be shown in the society’s balance sheet under Liabilities item A.I, but need not be shown under the name “revaluation reserve”.

(3) An amount may be transferred from the revaluation reserve to the income and expenditure account, if the amount was previously charged to that account and the revaluation reserve must be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) The revaluation reserve must not be reduced except as mentioned in this paragraph.

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

(6) This paragraph does not apply to the difference between the valuation of investments and their purchase price or previous valuation shown in the long term business technical account or the non-technical account in accordance with note (9) on the income and expenditure account format.

PART IV

HISTORICAL COST ACCOUNTING RULES

Preliminary

18. Subject to paragraphs 8 to 17 above, the amounts to be included in respect of all items shown in a society’s accounts must be determined in accordance with the rules set out in paragraphs 19 to 31 below.

Valuation of assets

General rules

19. Subject to any provision for depreciation or diminution in value made in accordance with paragraph 20 or 21 below, the amount to be included in respect of any asset in the balance sheet format must be its cost.

20. In the case of any asset included under Assets item A (intangible assets), B.I (land and buildings), F.I. (tangible assets) or F.II (stocks) which has a limited useful economic life, the amount of:

- (a) its 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,

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

21.—(1) This paragraph applies to any asset included under Assets item A (tangible assets), B (investments) or F.I (tangible assets).

(2) Where an asset to which this paragraph applies 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; and any such provisions which are not shown in the income and expenditure account must be disclosed (either separately or in aggregate) in a note to the accounts.

(3) Provisions for diminution in value must be made in respect of any asset to which this paragraph applies 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 must be reduced accordingly; and any such provisions which are not shown in the income and expenditure account must be disclosed (either separately or in aggregate) in a note to the accounts.

(4) Where the reasons for which any provision was made in accordance with subparagraph (1) or (2) have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary; and any amounts written back in accordance with this subparagraph which are not shown in the income and expenditure account must be disclosed (either separately or in aggregate) in a note to the accounts.

22.—(1) This paragraph applies to assets included under Assets items E.I., II, and III (debtors) and F.III (cash at bank and in hand) in the balance sheet.

(2) If the net realisable value of an asset to which this paragraph applies is lower than its cost the amount to be included in respect of that asset must be the net realisable value.

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

Development costs

23.—(1) Notwithstanding that amounts representing “development costs” may be included under Assets item A (intangible assets) in the balance sheet format, an amount may only be included in a society’s balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a society’s balance sheet in respect of development costs the following information must 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
- (b) the reasons for capitalising the development costs in question.

Goodwill

24.—(1) The application of paragraphs 19 to 21 above 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) below, the amount of the consideration of any goodwill acquired by a society must be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the committee of management.

(3) The period chosen must not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a society is included as an asset in the society’s balance sheet the period chosen for writing off the consideration for that goodwill and the reasons for choosing that period must be disclosed in a note to the accounts.

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PART V

MISCELLANEOUS AND SUPPLEMENTAL

Excess of money owed over value received as an asset item

25.—(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 must be written off by reasonable amounts each year and must be completely written off before repayments 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.

Assets included at a fixed amount

26.—(1) Subject to the following sub-paragraph, assets which fall to be included under Assets item F.I. (tangible assets) in the balance sheet format may be included at a fixed quantity and value.

(2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced, where:

- (a) their overall value is not material to assessing the society's state of affairs; and
- (b) their quantity, value and composition are not subject to material variation.

Determination of cost

27.—(1) The cost of an asset that has been acquired by the society must 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 must 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 the construction; and
- (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) above, 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.

28.—(1) Subject to the qualification mentioned below, the cost of any assets which are fungible assets may be determined by the application of any of the methods mentioned in sub-paragraph (2) below in relation to any such assets of the same class.

The method chosen must be one which appears to the committee of management to be appropriate in 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);

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- (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 must be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5) below, for the purposes of sub-paragraph (3)(b) above, 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 purchase price 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 committee of management to constitute the more appropriate standard of comparison in the case of assets of that class.

Substitution of original amount where price or cost unknown

29. Where there is no record of the purchase price of any asset acquired by a society or of any price, expenses or costs relevant for determining its cost in accordance with paragraph 27 above, or any such record cannot be obtained without unreasonable expense or delay, its cost must be taken for the purposes of paragraphs 19 to 24 above to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the society.

Assets and liabilities denominated in foreign currencies

30.—(1) Subject to the following subparagraphs, amounts to be included in respect of assets and liabilities denominated in foreign currencies must be 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 A and F1 in Part I or Part 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 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 assets or liabilities held, or any transaction entered into, for hedging purposes, or to any assets or liabilities which are themselves hedged.

31.—(1) Subject to subparagraph (2), any difference between the amount to be included in respect of an asset or liability under paragraph 30 and the book value, after translation into sterling at an appropriate rate, of that asset or liability, must 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 A and F1 in Part I or Part II of Schedule 2, and of transactions undertaken to cover such assets,

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any such difference must be deducted from or credited to the general reserve included in the balance sheet.

32. The provisions of this Schedule which relate to long term business apply, with necessary modifications, to business within Classes 1 and 2 of Head B of Schedule 2 to the Act which:

- (a) is transacted exclusively or principally according to the technical principles of long term business; and
- (b) is a significant amount of the business of the society.

PART VI

RULES FOR DETERMINING PROVISIONS

Preliminary

33. Provisions which are to be shown in a society's accounts must be determined in accordance with paragraphs 34 to 40 below.

Technical provisions

34. The amount of technical provisions must at all times be sufficient to cover any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

Provision for unearned premiums

35.—(1) The provision for unearned premiums must in principle be computed separately for each insurance contract, save that statistical methods (and in particular proportional and flat rate methods) may be used where they may be expected to give approximately the same results as individual calculations.

(2) Where the pattern of risk varies over the life of a contract, this must be taken into account in the calculation methods.

Provision for unexpired risks

36. The provision for unexpired risks (as defined in paragraph 10 of Schedule 9 below) must be computed on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before that date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

Long term business provision

37.—(1) The long term business provision must in principle be computed separately for each long term contract, save that statistical or mathematical methods may be used where they may be expected to give approximately the same results as individual calculations.

(2) A summary of the principal assumptions in making the provision under subparagraph (1) must be given in the notes to the accounts.

(3) The computation must be made annually by a Fellow of the Institute or Faculty of Actuaries on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in the Friendly Societies (Authorisation) Regulations 1994⁽¹¹⁾.

(11) S.I. 1994 No. 1982.

Provisions for claims outstanding

General business

38.—(1) A provision must in principle be computed separately for each claim on the basis of the costs still expected to arise, save that statistical methods may be used if they result in an adequate provision having regard to the nature of the risks.

(2) This provision must also allow for claims incurred but not reported by the balance sheet date, the amount of the allowance being determined having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(3) All claims settlement costs (whether direct or indirect) must be included in the calculation of the provision.

(4) Recoverable amounts arising out of subrogation or salvage must be estimated on a prudent basis and either deducted from the provision for claims outstanding (in which case if the amounts are material they must be shown in the notes to the accounts) or shown as assets.

(5) In sub-paragraph (4) above, “subrogation” means the acquisition of the rights of members or policy holders with respect to third parties, and “salvage” means the acquisition of the legal ownership of insured property.

(6) Where benefits resulting from a claim must be paid in the form of annuity, the amounts to be set aside for that purpose must be calculated by recognised actuarial methods, and paragraph 40 below must not apply to such calculations.

(7) Implicit discounting or deductions, whether resulting from the placing of a current value on a provision for an outstanding claim which is expected to be settled later at a higher figure or otherwise effected, is prohibited.

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

- (a) the expected average interval between the date for the settlement of claims being discounted and the accounting date must be at least four years;
- (b) the discounting or deductions must be effected on a recognised prudential basis;
- (c) when calculating the total cost of settling claims, the society must take account of all factors that could cause increases in that cost;
- (d) the society must have adequate data at its disposal to construct a reliable model of the rate of claims settlements; and
- (e) the rate of interest used for the calculation of present values must not exceed a rate prudently estimated to be earned by assets of the society which are appropriate in magnitude and nature to cover the provisions for claims being discounted during the period necessary for the payment of such claims, and must not exceed either:
 - (i) a rate justified by the performance of such assets over the preceding five years; or
 - (ii) a rate justified by the performance of such assets during the year preceding the balance sheet date.

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

- (a) the total amount of provisions before discounting or deductions,
- (b) the categories of claims which are discounted or from which deductions have been made; and

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

Long term business

40. The amount of the provision for claims must be equal to the sums due to beneficiaries, plus the costs of settling claims.

SCHEDULE 7

Regulation 11

ANNUAL ACCOUNTS OF NON-DIRECTIVE SOCIETY

PART I

FORMAT OF NON-DIRECTIVE SOCIETY INCOME AND EXPENDITURE ACCOUNT

1. Income

- (a) Contributions
- (b)
 - (i) Rents from Land and Buildings
 - (ii) Outgoings on Land and Buildings
- (c) Interests from:
 - Mortgages
 - British Government and British Government Guaranteed Securities
 - Other investments
- (d) Gain or loss on the realisation of investment
- (e) Other income

2. Expenditure

- (a) Sickness benefits
- (b) Endowments on maturity
- (c) Death benefits
- (d) Other benefits (to be specified)
- (e) Divided among the members
- (f) Deducted for expenses of management
 - (i) Salaries
 - (ii) Audit fees
 - (iii) Valuation Expenses
 - (iv) Other expenses
- (g) Other expenditure
- (h) Corporation Tax

3. Excess of income over expenditure

PART II

FORMAT OF NON-DIRECTIVE SOCIETY BALANCE SHEET

Assets

A.

Investments

- I.** Land and buildings
- II.** Mortgages on Land and Buildings
- III.** British Government and British Government Guaranteed Securities
- IV.** Other investments

B.

Debtors

C.

Other assets

- I.** Tangible assets
- II.** Cash at bank and in hand
- III.** Other prepayments and accrued income

Liabilities

A.

Benefit and Benefit Reserves Funds

- I.** Sickness
- II.** Death
- III.** Members' fund
- IV.** Other Benefit and Benefit Reserves Funds
- V.** Management Fund

B.

Corporation tax provisions

C.

Creditors

- I.** Other creditors including taxation and social security
 - II.** Accruals and deferred income
- Regulation 8

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PART III

NOTES TO ANNUAL ACCOUNTS OF NON-DIRECTIVE SOCIETY

The following paragraphs of Schedule 4 (Notes to annual accounts) are specified as the material to be included in the notes to annual accounts of non-directive societies:

- (a) paragraph 1 (accounting policies);
- (b) paragraphs 4-14 (committee members' emoluments);
- (c) paragraph 18 (investments);
- (d) paragraph 19 (reserves and provisions);
- (e) paragraph 22 (guarantees and other financial commitments);
- (f) paragraph 29 (commissions);
- (g) paragraph 30(5) (auditors and actuary's remuneration); and
- (h) paragraph 32 (industrial assurance).

SCHEDULE 8

Regulation 12

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

PART I

SOCIETY

1. There must be stated names of the persons who, at any time during the financial year, were members of the committee of management of the society. There must be stated the name of the person or persons who at any time during the year held the position of chief executive of the society.

2. The committee of management's annual report must contain:

- (a) a statement of the business objectives and activities of the society and its jointly controlled bodies and subsidiaries;
- (b) particulars of any events which have occurred since the end of the financial year and which are considered by the committee of management of the society to have an important effect on the society or any of its associated bodies, and
- (c) an indication of the opinion of the committee of management of the society as to the developments which they consider likely to happen in the business of the society and its associated bodies.

3.—(1) If significant changes in the fixed assets of the society or of any jointly controlled bodies or subsidiaries have occurred in the financial year, the annual report must contain particulars of the changes.

(2) If, in the case of such of those fixed assets as consists 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 opinion of the committee of management of such significance as to require that the attention of the members of the society should be drawn to it, the annual report must indicate the difference with such degree of precision as is practicable.

4.—(1) Subject to subparagraphs (2) and (3), the committee of management annual report must state the following, with respect to each person who, at the end of the financial year, was member of the committee management of the society:

- (a) whether or not he was at the end of that year interested in shares in, or debentures of, any jointly controlled body or subsidiary of the society;
- (b) if he was so interested:
 - (i) the number and amount of shares in, and debentures of, each such body (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 member of the committee management, when he became one), interested in shares in, or debentures of, that or any other such body; and
 - (iii) if he was, the number and amount of shares in, and debentures of, each body (specifying it) in which he was interested at the beginning of the financial year or (as the case may be) when he became a member of the committee of management.

(2) The particulars required by subparagraph (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 committee of management's annual report.

(3) Particulars required by subparagraph (1) are not required to be given in respect of committee members' nominee shareholdings, held on behalf of the society.

(4) Any changes in the details disclosed under subparagraph (1) between the end of the year and the relevant date must be disclosed in the committee of management's annual report and any such change after that date may be so disclosed.

(5) For the purposes of subparagraph (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 76 of the Act of components of the annual accounts is completed.

5.—(1) This paragraph applies to the committee of management's annual 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 subparagraph (1) the average number is the quotient derived by dividing, by the number of complete 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 committee of management's annual report must 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 committee of management's annual report must where this paragraph applies also contain a statement describing the action that has been taken during the financial year to introduce, maintain or develop requirements aimed at:

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- (a) providing staff systematically with information on matters of concern to them as staff;
 - (b) consulting staff, or their representatives on a regular basis so that the views of staff can be taken into account in making decisions which are likely to effect their interests;
 - (c) encouraging the involvement of staff in the society's performance; and
 - (d) achieving a common awareness on the part of all staff of the financial and economic factors effecting 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 "staff" must be construed accordingly; and
 - (b) "disabled person" means the same as in the Disabled Persons (Employment) Act 1944⁽¹²⁾ and the Disabled Persons (Employment) Act (Northern Ireland) 1945⁽¹³⁾.

6.—(1) If at the end of the financial year the society has jointly controlled bodies or subsidiaries, there must be contained in the committee of management's annual report a statement of:

- (a) the average number of persons employed between them in each week in that year by the society and the jointly controlled bodies or subsidiaries; and
- (b) the aggregate remuneration paid or payable in respect of that year to the persons by reference to whom the number stated under sub-paragraph (a) is ascertained.

(2) The number to be stated under that sub-paragraph is the quotient derived by dividing, by the number of weeks in the financial year, the number derived by ascertaining, in relation to each of those weeks, the number of persons who, under contracts of service, were employed between them in the week (whether throughout it or not) by the society and its jointly controlled bodies or subsidiaries and adding up the numbers ascertained.

7. The remuneration to be taken into account under paragraph 6(1)(b) is the gross remuneration paid or payable in respect of the financial year; and for this purpose "remuneration" includes bonuses (whether payable under contract or not).

8. There must be contained in the committee of management's annual report a statement confirming that the society had, at the financial year end, the required margin of solvency as prescribed in Regulations made under section 48(2) of the Act for each class of relevant business.

9. There must be stated in the committee of management's annual report details of any transfers of engagement accepted by the society during the year and the effect, if considered material, on other information provided in the report.

10.—(1) The following applies if the society or any subsidiary or jointly controlled body 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 must be contained in the committee of management's annual 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

⁽¹²⁾ 1944 c. 10.

⁽¹³⁾ 1945 c. 6. (N.I.).

(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 or jointly controlled body 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.

11. The committee of management's annual report must contain particulars of any other matters so far as they are material for the appreciation of the state of the society's affairs by its members, being matters the disclosure of which will not, in the opinion of the committee of management, be harmful to the business of the society or of any of its jointly controlled bodies or subsidiaries.

PART II

NON-DIRECTIVE SOCIETY

12. The following paragraphs of Part I of this Schedule are specified as the material to be included in the committee of management's annual report of a non-directive society:

- (a) paragraph 1 (names of the members of the committee of management);
- (b) paragraph 2a (a fair view of the activities of the society);
- (c) paragraph 8 (solvency);
- (d) paragraph 10 (general matters); and
- (e) paragraph 11 (other material matters).

SCHEDULE 9

Regulation 14

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.

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Leases

3. 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 investments

4. “Listed investment” means an investment listed on a recognised stock exchange or on any stock exchange of repute outside the United Kingdom and the expression “unlisted investment” is to be construed accordingly.

Loans

5. 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

6. 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 14 and 31 of Schedule 4), are to be taken to prohibit the disregarding of an amount which, in the particular context of that provision is immaterial.

Provisions

7.—(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 (other than in paragraphs 33 to 40 of Schedule 6) 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

8. In the application of these Regulations in Scotland, “land of freehold tenure” means land in respect of which 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 relevant subsidiary) is the tenant under a lease.

Staff costs

9.—(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 other contributions by the society for the purposes of any pension scheme established for the purpose of providing pensions for persons employed by the society, any sums set aside for that purpose, and any amounts paid by the society in respect of pensions without first being set aside.

(3) Any amount stated in respect of either of the above items or in respect of the item “wages and salaries” in the society’s income and expenditure account must be determined by reference to payments made or costs incurred 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 paragraph 3(1)(a) of Schedule 4 above.

Other definitions

10.—(1) In the Schedules to these Regulations:

“fungible assets” means assets of any description which are substantially indistinguishable one from another; and

“provision for unexpired risks” means the amount set aside in addition to unearned premiums in respect of risks to be borne by the society after the end of the financial year, in order to provide for all claims and expenses in connection with insurance contracts in force in excess of the related unearned premiums and any premiums receivable on those contracts.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations prescribe the format and content of the annual accounts and committee of management report which must be prepared in respect of friendly societies or of friendly societies and their subsidiaries and jointly controlled bodies as a whole. In respect of societies to which the Insurance Directives apply, these Regulations also implement Council Directive 91/674 on the annual accounts and consolidated accounts of insurance undertakings. The requirements of the Directive are imposed on friendly societies whose contribution income exceeds the thresholds set out in section 37 of the Act, on all incorporated societies and on societies which conduct reinsurance business.

Regulation 2 defines terms for the purposes of these Regulations. In particular the definition of “society” should be noted as it has a restricted meaning for the purposes of these Regulations. Under regulation 3 the Regulations apply to accounts and reports for the 1995 financial year and thereafter.

Regulation 4 provides for the format of income and expenditure accounts and balance sheets of societies which do not have subsidiaries or jointly controlled bodies. Regulation 5 provides for the format of income and expenditure accounts and balance sheets of societies which have subsidiaries or jointly controlled bodies.

Regulation 6 prescribes requirements for the content and form of the accounts including requiring the accounts to be prepared in accordance with notes set out in the Schedules to the Regulations. Regulation 7 prescribes further requirements for group accounts. Regulation 8 requires the inclusion of notes to the accounts containing the material specified in Schedule 4 to the Regulations. Regulation 9 introduces Schedule 5 which sets out the information on investments in associated

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bodies which must be included in the notes. Regulation 10 introduces Schedule 6 which sets out the accounting principles and rules which must be applied in preparing the accounts.

Regulation 11 and Schedule 7 prescribe the accounts requirements for societies to which the Insurance Directives do not apply and which are not incorporated. Simplified income and expenditure accounts, balance sheets and notes thereto are required.

Regulation 12 and Schedule 8 set out the requirements for the committee of management's annual report. Less stringent requirements are specified for societies to which the Insurance Directives do not apply or which are not incorporated.

Regulation 13 contains transitional provisions concerning accounting records for the year preceding the year to which these Regulations first apply. Regulation 14 introduces Schedule 9 which contains definitions of certain terms for the purposes of the Schedules to these Regulations.

A review of the cost of compliance with these Regulations has been undertaken and the resulting compliance cost assessment may be purchased from the Secretary, Friendly Societies Commission, 15 Great Marlborough Street, London W1V 2AX.