SCHEDULE 2

FORM AND CONTENT OF COMPANY ACCOUNTS

6.—(1) Part 2 (accounting principles and rules) is amended as follows.

(2) In paragraph 16 (general requirement to use historical cost accounting), for "Subject to section C" substitute "Subject to sections C and D".

(3) After section C insert–

"SECTION D

FAIR VALUE ACCOUNTING

Inclusion of financial instruments at fair value

34A.—(1) Subject to sub-paragraphs (2) to (4), financial instruments (including derivatives) may be included at fair value.

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

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

(b) they are derivatives.

(3) Sub-paragraph (1) does not apply to–

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

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

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

(d) equity instruments issued by the company;

(e) contracts for contingent consideration in a business combination;

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

(4) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 34B, sub-paragraph (1) does not apply to that financial instrument.

(5) In this paragraph–

"associated undertaking" has the meaning given by paragraph 20 of Schedule 4A; and

"joint venture" has the meaning given by paragraph 19 of that Schedule.

Determination of fair value

34B.—(1) The fair value of a financial instrument is determined in accordance with this paragraph.

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

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

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

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

Inclusion of hedged items at fair value

34C. A company may include any assets and liabilities that qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, at the amount required under that system.

Other assets that may be included at fair value

34D.—(1) This paragraph applies to–

(a) investment property, and

(b) living animals and plants,

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

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

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

Accounting for changes in value

34E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 34A or 34C or an asset is valued in accordance with paragraph 34D.

(2) Notwithstanding paragraph 12 of this Schedule, and subject to sub-paragraphs (3) and (4) below, a change in the value of the financial instrument or of the investment property or living animal or plant must be included in the profit and loss account.

(3) Where–

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

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

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

(4) Where the instrument accounted for–

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

(b) is not a derivative,

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

The fair value reserve

34F.—(1) The fair value reserve must be adjusted to the extent that the amounts shown in it are no longer necessary for the purposes of paragraph 34E(3) or (4).

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