*Draft Order laid before Parliament under section 104(5) of the Building Societies Act 1986 and section 2(2) of the European Communities Act, for approval by resolution of each House of Parliament.*

DRAFT STATUTORY INSTRUMENTS

# 2004 No.

# BUILDING SOCIETIES

## The Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004

| | |
|---|---|
| *Made - - - -* | *2004* |
| *Coming into force - -* | *2004* |

Whereas a draft of this Order has been laid before Parliament in accordance with section 104(5) of the Building Societies Act 1986(**1**) and section 2(2) of the European Communities Act 1972(**2**) and approved by both Houses of Parliament;

Whereas the Treasury is a department designated(**3**) in relation to measures regulating the business of building societies;

Now therefore, the Treasury, in exercise of the powers conferred upon them by section 104 of the Building Societies Act 1986 and by section 2(2) of the European Communities Act 1972, hereby make the following Order:

## PART 1

## General

**Citation, commencement and interpretation**

**1.**—(1) This Order may be cited as the Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004.

(2) This Order comes into force on the day after the day on which it is made and has effect as respects building societies' financial years which begin on or after 1st January 2005 (the "commencement date").

(3) In this Order "the 1986 Act" means the Building Societies Act 1986.

(**1**) 1986 c. 53.
(**2**) 1972 c. 68.
(**3**) The European Communities (Designation) (No.3) Order 2001 (S.I.2001/3495).

# PART 2

## Accounts prepared in accordance with international accounting standards

### Preparation of individual and group accounts in accordance with international accounting standards

**2.** For sections 72 and 73 of the 1986 Act(**4**) substitute—

"**Duty to prepare individual accounts**

**72A.**—(1) The directors of every building society shall prepare accounts for the society for each of its financial years.

Those accounts are referred to in this Part as the society's "individual accounts".

(2) A society's individual accounts may be prepared—

(a) in accordance with section 72B ("Building Societies Act individual accounts"), or

(b) in accordance with international accounting standards ("IAS individual accounts").

This subsection is subject to the following provisions of this section and section 72I (consistency of accounts).

(3) After the first financial year in which the directors of a building society prepare IAS individual accounts ("the first IAS year"), all subsequent individual accounts of the society must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(4) There is a relevant change of circumstance if, at any time during or after the first IAS year, the society ceases to have any securities admitted to trading on a regulated market.

(5) If, having changed to preparing Building Societies Act individual accounts following a relevant change of circumstance, the directors again prepare IAS individual accounts for the society, subsections (3) and (4) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

**Building Societies Act individual accounts**

**72B.**—(1) Building Societies Act individual accounts must comprise—

(a) a balance sheet as at the last day of the financial year, and

(b) an income and expenditure account.

(2) The balance sheet must give a true and fair view of the state of affairs of the society as at the end of the financial year; and the income and expenditure account must give a true and fair view of the income and expenditure of the society for the financial year.

(3) Building Societies Act individual accounts must comply with the requirements of regulations made under section 72C as to the form and content of the balance sheet and income and expenditure account and additional information to be provided by way of notes to the accounts or otherwise.

(4) Where compliance with the provisions of those regulations, and the other provisions of this Act as to the matters to be included in a society's individual accounts or in notes to

(**4**) Sections 72 and 73 were amended by S.I. 1991/1729, S.I. 1999/248 and S.I. 2001/2617. Section 73 was also amended by section 43 of the Building Societies Act 1997.

those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

(6) Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(7) The Treasury may by regulations—

(a) add to the classes of documents to be comprised in a society's Building Societies Act individual accounts under subsection (1);

(b) make provision as to the matters to be included in any document so added;

(c) modify the requirements of this Part as to the matters to be stated in any document comprised in the society's Building Societies Act individual accounts;

(d) reduce the classes of documents to be comprised in a society's Building Societies Act individual accounts.

(8) Regulations under subsection (7)—

(a) may make different provision for different descriptions of society, and

(b) may include incidental and supplementary provisions.

(9) The power to make regulations under subsection (7) is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

**Form and contents of Building Societies Act individual accounts**

**72C.**—(1) The Treasury shall by regulations make provision with respect to the form and contents of Building Societies Act individual accounts.

(2) The Treasury may by regulations make provision with respect to additional information to be contained in Building Societies Act individual accounts, whether in the form of notes or otherwise.

(3) Without prejudice to the generality of subsections (1) and (2), the regulations may—

(a) prescribe accounting principles and rules;

(b) require corresponding information for a preceding financial year;

(c) make different provision for different descriptions of society.

(4) The power to make regulations under this section is exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

**IAS individual accounts**

**72D.** Where the directors of a building society prepare IAS individual accounts, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

**Duty to prepare group accounts**

**72E.**—(1) If at the end of a financial year a building society has subsidiary undertakings, the directors, as well as preparing individual accounts for the year, shall prepare accounts for the year for the society and those undertakings taken as a whole.

Those accounts are referred to in this Part as the society's "group accounts".

(2) The group accounts of certain societies are required by Article 4 of the IAS Regulation to be prepared in accordance with international accounting standards ("IAS group accounts").

(3) The group accounts of other societies may be prepared—

(a) in accordance with section 72F ("Building Societies Act group accounts"), or

(b) in accordance with international accounting standards ("IAS group accounts").

This subsection is subject to the following provisions of this section.

(4) After the first financial year in which the directors of a building society prepare IAS group accounts ("the first IAS year"), all subsequent group accounts of the society must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(5) There is a relevant change of circumstance if, at any time during or after the first IAS year, the society ceases to have any securities admitted to trading on a regulated market.

(6) If, having changed to preparing Building Societies Act group accounts following a relevant change of circumstance, the directors again prepare IAS group accounts for the society, subsection (4) and (5) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

**Building Societies Act group accounts**

**72F.**—(1) Building Societies Act group accounts must comprise—

(a) a balance sheet dealing with the state of affairs of the building society and its subsidiary undertakings, and

(b) an income and expenditure account showing the income and expenditure for the society and its subsidiary undertakings.

(2) Building Societies Act group accounts must give a true and fair view of the state of affairs as at the end of the financial year, and the income and expenditure for the financial year of the society and the subsidiary undertakings included in the group accounts as a whole, so far as concerns members of the society.

(3) Building Societies Act group accounts must comply with the requirements of regulations made under section 72G as to the form and content of the group accounts and additional information to be provided by way of notes to the accounts or otherwise.

(4) Where compliance with the provisions of those regulations, and the other provisions of this Act as to the matters to be included in a society's group accounts or in notes to those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

(6) Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(7) The Treasury may by regulations—

(a) add to the classes of documents to be comprised in a society's Building Societies Act group accounts under subsection (1);

(b) make provision as to the matters to be included in any document so added;

(c) modify the requirements of this Part as to the matters to be stated in any document comprised in the society's Building Societies Act group accounts; and

(d) reduce the classes of documents to be comprised in a society's Building Societies Act group accounts.

(8) Regulations under subsection (7)—

(a) may make different provision for different descriptions of society, and

(b) may include incidental and supplementary provisions.

(9) The power to make regulations under subsection (7) is exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

**Form and contents of Building Societies Act group accounts**

**72G.**—(1) The Treasury shall by regulations make provision with respect to the form and contents of Building Societies Act group accounts.

(2) The Treasury may by regulations make provision with respect to additional information to be contained in Building Societies Act group accounts, whether in the form of notes or otherwise.

(3) Without prejudice to the generality of subsections (1) and (2), the regulations may—

(a) prescribe accounting principles and rules;

(b) require corresponding information for a preceding financial year;

(c) make different provision for different descriptions of society;

(d) permit group accounts to be prepared in other than consolidated form.

(4) The power to make regulations under this section is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

**IAS group accounts**

**72H.** Where the directors of a building society prepare IAS group accounts, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

**Consistency of accounts**

**72I.**—(1) The directors of a building society that prepares group accounts must secure that the individual accounts of–

(a) the building society, and

(b) each of its subsidiary undertakings,

are all prepared using the same financial reporting framework, except to the extent that in their opinion there are good reasons for not doing so.

(2) Subsection (1) only applies to accounts of subsidiary undertakings which are required to be prepared under Part 7 of the Companies Act 1985(**5**).

(3) Subsection (1) does not require accounts of undertakings that are charities to be prepared using the same financial reporting framework as accounts of undertakings which are not charities.

(**5**) 1985 c. 6, Part 7 is amended by the Companies Act 1989 (1989 c. 40), S.I. 1991/2705, S.I. 1993/ 3246, S.I. 1994/1935, S.I. 1997/220 and S.I. 2002/1986.