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STATUTORY INSTRUMENTS

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**1992 No. 1611**

**BUILDING SOCIETIES**

**The Building Societies (Designated  
Capital Resources) Order 1992**

<i>Made</i>	- - - -	<i>2nd July 1992</i>
<i>Laid before Parliament</i>		<i>7th July 1992</i>
<i>Coming into force</i>	- -	<i>1st August 1992</i>

The Building Societies Commission, with the consent of the Treasury, in exercise of the powers conferred on it by section 45(5) of the Building Societies Act 1986<sup>(1)</sup> hereby makes the following Order:

**Title and commencement**

1. This Order may be cited as the Building Societies (Designated Capital Resources) Order 1992 and shall come into force on 1st August 1992.

**Interpretation**

2. In this Order—

“the Accounts Regulations” means the regulations for the time being in force under section 73 (contents and form of annual accounts) of the Act,

“the Act” means the Building Societies Act 1986,

“aggregable” means falling to be aggregated with reserves for the purpose of the first criterion in section 45(3) (criteria of prudent management) of the Act in accordance with an order made under section 45(5) of the Act,

“closing accounts” means the audited accounts of a society which has transferred its engagements to another society under section 94 (transfer of engagements) of the Act, for the period beginning with the date of its last annual accounts and ending immediately before the transfer effected by section 94(8) of the Act,

“group accounts” means accounts prepared in accordance with section 72(2) (duty of directors to prepare group accounts) of the Act a copy of which has been sent to the Commission and to the central office in accordance with section 81(2) (laying and furnishing accounts) of the Act,

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(1) 1986 c. 53.

“intangible assets” means the amount of any intangible fixed assets within the meaning of the Accounts Regulations shown in the latest balance sheet of a society or, if different, the amount of any such assets shown in the accounting records of the society for the time being,

“interim loss” means a loss, shown in the accounting records of a society, for the period since the latest balance sheet of the society,

“the latest annual accounts” means—

- (a) the annual accounts a copy of which has most recently been sent to the Commission and to the central office under section 81(2) of the Act, or
- (b) in relation to a relevant amalgamated society, its latest audited accounts, or
- (c) in relation to a relevant transferee society, the accounts produced by consolidating the latest annual accounts within the meaning of paragraph (a) above of the relevant transferee society with the closing accounts of the society which has transferred its engagements to it,

“the latest balance sheet” means the balance sheet within the latest annual accounts,

“loss” means loss including all foreseeable charges and any extraordinary items,

“old deferred shares” has the meaning which it bears in the Building Societies (Designated Capital Resources) (Permanent Interest Bearing Shares) Order 1991(2),

“profit” means profit after the deduction of all foreseeable charges and any extraordinary items,

“relevant amalgamated society” means a society which has been formed by the amalgamation of two or more societies under section 93 (amalgamations) of the Act which, as such, has not yet produced annual accounts but which has produced audited accounts,

“relevant transferee society” means a society which has taken a transfer of the engagements of another society under section 94 of the Act and has not produced annual accounts since that transfer, where the society so transferring has produced closing accounts,

“reserves” means the reserves shown in the latest balance sheet of a society,

“society” means a building society,

“subsidiary undertaking” has the meaning assigned to it in Article 5 of the Building Societies Act 1986 (Modifications) Order 1991(3),

“supplementary capital” has the meaning which it bears in the Supplementary Capital Order, and

“the Supplementary Capital Order” means the Building Societies (Supplementary Capital) Order 1988(4).

### **Specification of verified interim profit**

3.—(1) The amount of any profit for the period since the latest balance sheet of a society shown in the accounting records of the society for the time being which profit is adequately verified is specified as verified interim profit of that society to be aggregated with its reserves for the purpose of the first criterion in section 45(3) of the Act.

(2) For the purposes of paragraph (1) above, profit is adequately verified where the auditors of the society state that nothing has come to their attention to indicate that it does not fairly state the profit of the society for the period since the latest balance sheet of the society.

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(2) S.I.1991/702.

(3) S.I. 1991/1729.

(4) S.I. 1988/777.

### **Specification of internally audited interim profit**

4.—(1) The amount of any profit for the period since the latest balance sheet of a society shown in the accounting records of the society for the time being which profit is adequately verified is specified as internally audited interim profit of that society to be aggregated with its reserves for the purpose of the first criterion in section 45(3) of the Act, to the extent set out in Article 7 below.

(2) For the purposes of paragraph (1) above, profit is adequately verified where the directors of the society resolve that they are satisfied that it has been verified by internal audit.

### **Specification of revaluation reserve**

5. The amount standing to the credit of any revaluation reserve within the meaning of the Accounts Regulations in the latest balance sheet of a society (or the amount of any such reserve in the accounting records of the society for the time being, if less) is specified as the revaluation reserve of that society to be aggregated with its reserves for the purpose of the first criterion in section 45(3) of the Act, to the extent set out in Article 7 below.

### **Specification of general provisions for bad debt**

6. The amount of any general provisions for bad and doubtful debts within the meaning of the Accounts Regulations made in the latest annual accounts of a society (or the amount of any such provision made in the accounting records of the society for the time being, if less) is specified as general provisions for bad debt to be aggregated with the reserves of that society for the purpose of the first criterion in section 45(3) of the Act, to the extent set out in Article 7 below.

### **Limit on aggregation**

7.—(1) In determining the extent to which the internally audited interim profit, revaluation reserve, general provisions for bad debt and supplementary capital of a society are to be aggregated with the reserves of the society for the purpose of the first criterion in section 45(3) of the Act there shall be disregarded (in addition to any amount of supplementary capital disregarded under the Supplementary Capital Order) the amount (if any) by which the aggregate of the supplementary capital falling to be aggregated with the reserves of the society under the Supplementary Capital Order, internally audited interim profit, revaluation reserve and general provisions for bad debt of the society exceeds the society's primary capital.

(2) For the purposes of paragraph (1) above "primary capital" means the aggregate of the society's verified interim profit, aggregable deferred shares, aggregable old deferred shares and reserves, less the aggregate of any intangible assets and any interim loss.

(3) Where a society has subsidiary undertakings, the determination in paragraph (1) above shall be made on a consolidated basis, by reference to the group accounts and accounting records of the society and its subsidiary undertakings.

In witness whereof the common seal of the Building Societies Commission is hereunto fixed, and is authenticated by me, a person authorised under paragraph 14 of Schedule 1 to the Building Societies Act 1986, on 30th June 1992.

L.S.

*Norman Digance*  
Secretary to the Commission

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

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We consent to this Order

2nd July 1992

*Irvine Patnick*  
*Nicholas Baker*  
Two of the Lords Commissioners of Her  
Majesty's Treasury

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## EXPLANATORY NOTE

*(This note is not part of the Order)*

This Order specifies that various resources of a building society which appear in its annual accounts or accounting records are to be treated as capital resources to be aggregated with reserves for the purpose of the first criterion of prudent management (maintenance of adequate reserves and other designated capital resources) under section 45(3) of the Building Societies Act 1986. The resources designated by this Order are verified interim profit, internally audited interim profit, revaluation reserves and general provisions for bad debt.

Aggregation of a society's internally audited interim profit, revaluation reserve, general provisions for bad debt, and supplementary capital (as defined in the Building Societies (Supplementary Capital) Order 1988) is to be made only to the extent that the aggregate of those resources does not exceed the sum of the society's primary capital. Primary capital is defined as a society's reserves and verified interim profit plus any deferred shares falling to be aggregated under other Orders made under section 45(5), less any intangible assets and any interim loss.

Where a society has subsidiary undertakings, the calculation of the extent of aggregation of capital resources is to be made on the basis of the consolidated figures in its group accounts. Subsidiary undertakings are defined, by reference to the Building Societies Act 1986 (Modifications) Order 1991, in the same terms as for company accounts.

The Order gives effect, in relation to the capital resources of building societies, to the provisions of the European Communities Council Directive on the own funds of credit institutions ([89/299/EEC](#)) (OJ No L124, 5.5.89, p. 16) specifying the forms of capital which may be taken into account when calculating the own funds of a credit institution and imposing a limit on the extent to which capital other than primary capital may be counted as own funds for solvency and prudential purposes.