Council Directive of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/EEC)

SECTION 7

VALUATION RULES

Article 35

1 Assets items 9 and 10 must always be valued as fixed assets. The assets included in other balance sheet items shall be valued as fixed assets where they are intended for use on a continuing basis in the normal course of an undertakings's activities.

2 Where reference is made to financial fixed assets in Section 7 of Directive 78/660/EEC, this term shall in the case of credit institutions be taken to mean participating interests, shares in affiliated undertakings and securities intended for use on a continuing basis in the normal course of an undertaking's activities.

3

a Debt securities including fixed-income securities held as financial fixed assets shall be shown in the balance sheet at purchase price. The Member States may, however, require or permit such debt securities to be shown in the balance sheet at the amount repayable at maturity.

b Where the purchase price of such debt securities exceeds the amount repayable at maturity the amount of the difference must be charged to the profit and loss account. The Member States may, however, require or permit the amount of the difference to be written off in instalments so that it is completely written off by the time when the debt securities are repaid. The difference must be shown separately in the balance sheet or in the notes on the accounts.

c Where the purchase price of such debt securities is less than the amount repayable at maturity, the Member States may require or permit the amount of the difference to be released to income in instalments over the period remaining until repayment. The difference must be shown separately in the balance sheet or in the notes on the accounts.

Article 36

1 Where transferable securities which are not held as financial fixed assets are shown, in the balance sheet at purchase price, credit institutions shall disclose in the notes on their accounts the difference between the purchase price and the higher market value of the balance sheet date.

2 The Member States may, however, require or permit those transferable securities to be shown in the balance sheet at the higher market value at the balance sheet date. The difference between the purchase price and the higher market value shall be disclosed in the notes on the accounts.

Article 37

1 Article 39 of Directive 78/660/EEC shall apply to the valuation of credit institutions' loans and advances, debt securities, shares and other variable-yield securities which are not held as financial fixed assets.

2 Pending subsequent coordination, however, the Member States may permit:

a loans and advances to credit institutions and customers (Assets items 3 and 4) and debt securities, shares and other variable-yield securities included in Assets items 5 and 6 which are neither held as financial fixed assets as defined in Article 35 (2) nor included in a trading portfolio to be shown at a value lower than that which would result from the application of Article 39 (1) of Directive 78/660/EEC, where that is required by the prudence dictated by the particular risks associated with banking. Nevertheless, the difference between the two values must not be more than 4 % of the total amount of the assets mentioned above after application of the aforementioned Article 39;

b that the lower value resulting from the application of subparagraph (a) be maintained until the credit institution decides to adjust it;

c where a Member State exercises the option provided for in subparagraph (a), neither Article 36 (1) of this Directive nor Article 40 (2) of Directive 78/660/EEC shall apply.

Article 38

1 Pending subsequent coordination, those Member States which exercise the option provided for in Article 37 must permit and those Member States which do not exercise that option may permit the introduction of a Liabilities item 6A entitled 'Fund for general banking risks'. That item shall include those amounts which a credit institution decides to put aside to cover such risks where that is required by the particular risks associated with banking.

2 The net balance of the increases and decreases of the 'Fund for general banking risks' must be shown separately in the profit and loss account.

Article 39

1 Assets and liabilities denominated in foreign currency shall be translated at the spot rate of exchange ruling on the balance sheet date. The Member States my, however, require or permit assets held as financial fixed assets and tangible and intangible assets, not covered or not specifically covered in either the spot or forward markets, to be translated at the rates ruling on the dates of their acquisition.

2 Uncompleted forward and spot exchange transactions shall be translated at the spot rates of exchange ruling on the balance sheet date.

The Member States may, however, require forward transactions to be translated at the forward rate ruling on the balance sheet date.

3 Without prejudice to Article 29 (3), the differences between the book values of the assets, liabilities and forward transactions and the amounts produced by translation in accordance with paragraphs 1 and 2 shall be shown in the profit and loss account. The Member States may, however, require or permit differences produced by translation in accordance with paragraphs 1 and 2 to be included, in whole or in part, in reserves not available for distribution, where they arise on assets held as financial fixed assets, on tangible and intangible assets and on any transactions undertaken to cover those assets.

4 The Member States may provide that positive translation differences arising out of forward transactions, assets or liabilities not covered or not specifically covered by other forward transactions, or by assets or liabilities shall not be shown in the profit and loss account.

5 If a method specified in Article 59 of Directive 78/660/EEC is used, the Member States may provide that any translation differences shall be transferred, in whole or in part, directly to reserves. Positive and negative translation differences transferred to reserves shall be shown separately in the balance sheet or in the notes on the accounts.

6 The Member States may require or permit translation differences arising on consolidation out of the retranslation of an affiliated undertaking's capital and reserves or the share of a participating interest's capital and reserves at the beginning of the accounting period to be included, in whole or in part, in consolidated reserves, together with the translation differences arising on the translation of any transactions undertaken to cover that capital and those reserves.

7 The Member States may require or permit the income and expenditure of affiliated undertakings and participating interests to be translated on consolidation at the average rates of exchange ruling during the accounting period.