

SCHEDULE 1

Regulation 3

IAS ACCOUNTS: CONSEQUENTIAL AMENDMENTS TO 1986 ORDER

1. The 1986 Order is amended as follows.

2.—(1) Article 2A (index of defined expressions)(1) is amended as follows.

(2) At the appropriate places insert the following defined expressions –

| | |
|--------------------------------------|-------------------------------------|
| “Companies Order accounts | Articles 10(1) and 270(1)” |
| “Companies Order individual accounts | Articles 10(1), 233(4A) and 234(2)” |
| “ IAS accounts | Articles 10(1) and 270(1)” |
| “ IAS individual accounts | Articles 10(1) and 234(2)”. |

(3) In the definition of “profit and loss account”, in the second column, for “270(2)” substitute “270(1) and (2)”.

3. In Article 10(1) (expressions used in connection with accounts)(2) insert at the appropriate place “ “Companies Order accounts” ”, “ “Companies Order individual accounts” ”, “ “ IAS accounts” ” and “ “ IAS individual accounts” ”.

4. In Article 162(2) (definition of “net assets” for Chapter VI of Part VI), after “Schedule 4” insert “that is made in Companies Order individual accounts and any provision that is made in IAS individual accounts”.

5. In Article 182(2) (determination of availability of profits where private company wishes to redeem or purchase own shares out of capital) –

(a) after “reference to” insert “the following items as stated in the relevant accounts for determining the permissible capital payments for shares”,

(b) in sub-paragraph (b) –

(i) at the beginning insert – “the following provisions –

(i) in the case of Companies Order individual accounts,”;

(ii) after “etc.” insert – “, and

(ii) in the case of IAS individual accounts, provisions of any kind”, and

(c) omit from “as stated” to the end.

6. In Article 229 (duty to keep accounting records)(3), in paragraphs (1)(b) and (4) –

(a) for “any balance sheet and profit and loss account prepared under this Part complies” substitute “any accounts required to be prepared under this Part comply”; and

(b) at the end insert “(and, where applicable, of Article 4 of the IAS Regulation)”.

(1) Article 2A was inserted into the 1986 Order by Article 78 of, and paragraph 1 of Schedule 5 to, the Companies (No. 2) (Northern Ireland) Order 1990 (S.I.1990/1504 (N.I.10))

(2) Article 10 was substituted by Article 25 of, and paragraph 2 of Schedule 10 to, the Companies (Northern Ireland) Order 1990, and amended by S.R. 2003 No. 3

(3) Article 229 was inserted into the 1986 Order by Article 4 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

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7. In Article 230(3)(b) (accounts and returns to be sent to Northern Ireland)(4) –
 - (a) for “the company’s balance sheet and profit and loss account” substitute “the accounts required to be prepared under this Part”; and
 - (b) at the end insert “(and, where applicable, Article 4 of the IAS Regulation)”.
8. In Article 236 (exemption from obligation to prepare group accounts for parent companies included in accounts of larger group)(5), in paragraph (2)(b) at the end insert “or in accordance with international accounting standards”.
9. In Article 237 (subsidiary undertakings included in the consolidation)(6) –
 - (a) in paragraph (1) –
 - (i) at the beginning insert “In the case of Companies Order group accounts,”;
 - (ii) omit “or required”;
 - (b) in each of paragraphs (2) and (3), after “consolidation” insert “in Companies Order group accounts”;
 - (c) for paragraph (5) substitute –

“(5) A parent company is exempt from the requirement to prepare group accounts if under paragraph (2) or (3) all of its subsidiary undertakings could be excluded from consolidation in Companies Order group accounts.”.
10. In Article 238 (treatment of individual profit and loss account where group accounts prepared)(7), in paragraph (2) at the beginning insert “Where the company prepares Companies Order individual accounts,”.
11. After Article 239 insert –

“Disclosure required in notes to annual accounts: particulars of staff

239A.—(1) The following information with respect to the employees of the company must be given in notes to the company’s annual accounts –

- (a) the average number of persons employed by the company in the financial year, and
 - (b) the average number of persons so employed within each category of persons employed by the company.
- (2) The average number required by paragraph (1)(a) or (b) is determined by dividing the relevant annual number by the number of months in the financial year.
- (3) The relevant annual number is determined by ascertaining for each month in the financial year –
- (a) for the purposes of paragraph (1)(a), the number of persons employed under contracts of service by the company in that month (whether throughout the month or not);
 - (b) for the purposes of paragraph (1)(b), the number of persons in the category in question of persons so employed;

(4) Article 230 was inserted into the 1986 Order by Article 4 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

(5) Article 236 was inserted into the 1986 Order by Article 7(3) of the Companies (Northern Ireland) Order 1990, and amended by S.R. 1993 No. 199 and S.R. 1994 No. 428

(6) Article 237 was inserted into the 1986 Order by Article 7(3) of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

(7) Article 238 was inserted into the 1986 Order by Article 7(3) of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

and, in either case, adding together all the monthly numbers.

(4) In respect of all persons employed by the company during the financial year who are taken into account in determining the relevant annual number for the purposes of paragraph (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 company on their behalf; and
- (c) other pension costs so incurred.

This does not apply in so far as those amounts, or any of them, are stated elsewhere in the company's accounts.

(5) For the purposes of paragraph (1)(b), the categories of person employed by the company are such as the directors may select, having regard to the manner in which the company's activities are organised.

(6) This Article applies in relation to group accounts as if the undertakings included in the consolidation were a single company.

(7) In this Article “social security costs” and “pension costs” have the same meaning as in Schedule 4 (see paragraph 92(1) and (2) of that Schedule).”.

12. In Article 241(5) (criminal penalty for failing to comply with accounting requirements)(**8**), after “requirements of this Order” insert “(or, where applicable, of Article 4 of the IAS Regulation)”.

13.—(1) In Articles 253 to 253C (revision of defective accounts or reports)(**9**), after “requirements of this Order”, wherever occurring, insert “(or, where applicable, of Article 4 of the IAS Regulation)”.

(2) That expression occurs in Article 253(1) and (2), in Article 253A(1) and (3), in Article 253B(1), (4) and (5) and in Article 253C(1).

14.—(1) Article 254 (special provisions for small companies)(**10**) is amended as follows.

(2) In paragraph (2) –

- (a) after “for the year” insert “are Companies Order individual accounts and”; and
- (b) for “Article 234” substitute “Article 234A”.

(3) In paragraph (5)(c), after “if” insert “they prepare Companies Order individual accounts and”.

15. In Article 254A(1) (special provisions for medium-sized companies)(**11**), in paragraph (1) at the end insert “and its directors prepare Companies Order individual accounts for that year”.

16. In Article 255 (qualification of company as small or medium-sized)(**12**), for paragraph (5) substitute –

“(5) The balance sheet total means –

- (a) in the case of Companies Order individual accounts –

(8) Article 241 was inserted into the 1986 Order by Article 9 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

(9) Articles 253 to 253C were inserted into 1986 Order by Article 14 of the Companies (Northern Ireland) Order 1990. Article 253 was amended by [S.R. 1995 No. 128](#)

(10) Article 254 was inserted into the 1986 Order by Article 15 of the Companies (Northern Ireland) Order 1990, subsequently substituted by [S.R. 1997 No. 436](#), and amended by [S.R. 1997 No. 545](#) and [S.R. 2001 No. 153](#)

(11) Article 254A was inserted into the 1986 Order by [S.R. 1997 No. 436](#)

(12) Article 255 was inserted into the 1986 Order by Article 15 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number, and amended by [S.R. 1992 No. 503](#), [S.R. 1997 No. 314](#) and [S.R. 1997 No. 436](#)

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- (i) the aggregate of the amounts shown in the balance sheet under the headings corresponding to items A to D of Format 1 in Part I of Schedule 4 or Part I of Schedule 8, or
 - (ii) if Format 2 is adopted, the aggregate of the amounts shown under the general heading “ASSETS”;
 - (b) in the case of IAS individual accounts, the aggregate of the amounts shown as assets in the balance sheet.”.
17. In Article 256A(1)(b) (group accounts prepared by small company)(**13**) for “group accounts” substitute “Companies Order group accounts”.
18. In Article 257C (report required for the purposes of exemption from audit under Article 257A)(**14**), in paragraph (6)(a), for “Article 234(3)” substitute “Article 234A(3)”.
19. In Article 263 (special provisions for banking and insurance companies)(**15**), after paragraph (4) insert –
- “(4A) References to Companies Order individual accounts include accounts prepared in accordance with this Article.
 - (4B) This Article does not apply to banking companies and insurance companies that prepare IAS individual accounts.”.
- 20.—(1) Article 263A (special provisions for banking and insurance groups)(**16**) is amended as follows.
- (2) In paragraph (6)(a), for “Article 235(5) and (6)” substitute “Article 235A(4) and (5)”.
 - (3) After paragraph (6) insert –
 - “(6A) References to Companies Order group accounts include accounts prepared in accordance with paragraphs (1) to (3).
 - (6B) Paragraphs (1) to (3) and (6) do not apply to parent companies of banking groups or insurance groups that prepare IAS group accounts.”.
21. In Article 269(2) (notes to the accounts)(**17**), after “any provision of this Order” insert “or international accounting standards”.
- 22.—(1) Article 270 (minor definitions)(**18**) is amended as follows.
- (2) In paragraph (1) –
 - (a) at the appropriate place insert –
 - ““Companies Order accounts” means Companies Order individual accounts or Companies Order group accounts;”;
 - (b) at the appropriate place insert –
 - ““ IAS accounts” means IAS individual accounts or IAS group accounts;”;

(13) Article 256A was inserted into the 1986 Order by [S.R. 1997 No. 436](#)

(14) Article 257C was inserted into the 1986 Order by [S.R. 1995 No. 128](#), and amended by [S.R. 1997 No. 436](#) and [S.R. 2001 No. 153](#)

(15) Article 263 was inserted into the 1986 Order by Article 20 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number, substituted by [S.R. 1992 No. 258](#), and amended by [S.R. 1994 No. 428](#)

(16) Article 263A was inserted into the 1986 Order by Article 20 of the Companies (Northern Ireland) Order 1990, substituted by [S.R. 1992 No. 258](#), and amended by [S.R. 1993 No. 199](#), [S.R. 1994 No. 428](#) and [S.R. 1997 No. 314](#)

(17) Article 269 was inserted into the 1986 Order by Article 24 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

(18) Article 270 was inserted into the 1986 Order by Article 24 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number, and amended by [S.R. 1993 No. 199](#), [S.R. 1997 No. 314](#), [S.I. 2002/765](#) and [S.R. 2003 No. 3](#)

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(c) at the appropriate place insert –
““IAS Regulation” means EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19th July 2002 on the application of international accounting standards;”(19);

(d) at the appropriate place insert –
““international accounting standards” means the international accounting standards, within the meaning of the IAS Regulation, adopted from time to time by the European Commission in accordance with that Regulation;”;

(e) at the appropriate place insert –
““profit and loss account”, in relation to a company that prepares IAS accounts, includes an income statement or other equivalent financial statement required to be prepared by international accounting standards;”;

(f) omit the definition of “true and fair view”.

(3) After paragraph (2) insert –

“(2A) References in this Part to accounts giving a “true and fair view” are references –

- (a) in the case of Companies Order individual accounts, to the requirement under Article 234A that such accounts give a true and fair view;
- (b) in the case of Companies Order group accounts, to the requirement under Article 235A that such accounts give a true and fair view; and
- (c) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.”.

23.—(1) Article 270A (index of defined expressions)(20) is amended as follows.

(2) At the appropriate places insert the following defined expressions –

| | |
|--------------------------------------|-------------------------------|
| “Companies Order accounts | Section 270(1)” |
| “Companies Order group accounts | Articles 235(2) and 263A(6A)” |
| “Companies Order individual accounts | Articles 234(2) and 263(4A)” |
| “group accounts | Article 235(1)” |
| “ IAS accounts | Article 270(1)” |
| “ IAS group accounts | Article 235(2) and (3)” |
| “ IAS individual accounts | Article 234(2)” |
| “IAS Regulation | Article 270(1)” |

(19) Official Journal of 11th September 2002 (O.J. L243)

(20) Article 270A was inserted into the 1986 Order by Article 24 of the Companies (Northern Ireland) Order 1990, and amended by S.R. 1992 No. 258, S.R. 1994 No. 428, S.R. 1995 No. 128, S.R. 1997 No. 314, S.R. 1997 No. 436 and S.R. 2003 No. 3

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| “international accounting standards | Article 270(1)”. |
| (3) After the entry for “profit and loss account (includes notes)” insert – | |
| “(in relation to IAS accounts) | Article 270(1).” |
| (4) For the entry for “true and fair view” substitute – | |
| “true and fair view | Article 270(2A)”. |

24. In Article 272(2) (restriction on distribution of assets), after “Schedule 4” insert “that is made in Companies Order accounts and any provision that is made in IAS accounts”.

25. In Article 273(2) (other distributions by investment companies)(**21**), after “Schedule 4” insert “that is made in Companies Order accounts and any provision that is made in IAS accounts”.

26. In Article 276(2)(aa) (realised profits of insurance company with long term business)(**22**) –
- (a) after “balance sheet is” insert –
 - “(i) in the case of Companies Order individual accounts,”;
 - (b) at the end insert – “and
 - (ii) in the case of IAS individual accounts, to that part of the balance sheet which represents accumulated profit or loss,”.

27.—(1) Article 277(2) (treatment of development costs)(**23**) is amended as follows.

- (2) Omit “and” at the end of sub-paragraph (a).
- (3) In sub-paragraph (b) –
 - (a) at the beginning insert – “it is stated –
 - (i) in the case of Companies Order individual accounts, in”;
 - (b) for “states” substitute – “, or
 - (ii) in the case of IAS individual accounts, in any note to the accounts,”;
 - (c) for “and explains” substitute – “, and
 - (c) the note explains”.

28. In Article 278(2) (distribution to be justified by reference to company’s accounts), in sub-paragraph (b) –

- (a) at the beginning insert – “the following provisions –
 - (i) in the case of Companies Order individual accounts,”;
- (b) after “etc.)” insert – “, and
 - (ii) in the case of IAS individual accounts, provisions of any kind”.

29. In Article 280(3) (interim accounts must be properly prepared)(**24**) after “that Article” insert “and Articles 234A and 234B”.

(21) Article 273 was amended by section 212 of, and paragraph 19 of Schedule 16 to, the Financial Services Act 1986 (c. 60), and by S.I. 2001/3649

(22) Article 276 was amended by S.R. 1997 No. 314 and S.I. 2001/3649

(23) Article 277 was amended by S.R. 1997 No. 436

(24) Article 280 was amended by Article 25 of, and paragraphs 7 and 8 of Schedule 10 to, the Companies (Northern Ireland) Order 1990

30. In Article 283 (treatment of assets in the relevant accounts), for paragraph (1) substitute –
- “(1) For the purposes of Articles 271 and 272, the following are treated as realised losses –
- (a) in the case of Companies Order individual accounts, provisions of any kind mentioned in paragraphs 87 and 88 of Schedule 4 (other than revaluation provisions), and
 - (b) in the case of IAS individual accounts, provisions of any kind (other than revaluation provisions).
- (1A) In paragraph (1), a revaluation provision means a provision in respect of a diminution in value of a fixed asset appearing on a revaluation of all the fixed assets of the company, or of all of its fixed assets other than goodwill.”.
- 31.—(1) Schedule 4 (form and content of company accounts)(**25**) is amended as follows.
- (2) In Part III (notes to the accounts), omit paragraph 56.
- (3) In Part V (special provisions where the company is an investment company), in paragraph 72(2) after “paragraph 88” insert “that is made in Companies Order accounts and any provision that is made in IAS accounts”.
- (4) In Part VII (interpretation) in paragraph 92(3) for “paragraph 56(1)(a)” substitute “Article 239A(1)(a)”.
32. In paragraph 25 of Schedule 6 (disclosure of information: emoluments and other benefits of directors and others)(**26**), after “Schedule 4” insert “that is made in Companies Order accounts and any provision that is made in IAS accounts.”.
33. In Schedule 7, in paragraph 12(5)(c) (identifying amounts owed to trade creditors for purposes of directors' report)(**27**) after “Schedule 9 or 9A” insert “or the company’s accounts are IAS accounts”.
34. In Part I of Schedule 9 (form and content of banking companies' accounts)(**28**) –
- (a) omit paragraph 77, and
 - (b) in paragraph 86(c) (interpretation) for “paragraph 77(1)(a)” substitute “Article 239A(1)(a)”.
35. In Part I of Schedule 9A (form and content of insurance companies' accounts)(**29**) –
- (a) omit paragraph 79, and
 - (b) in paragraph 85(c) (interpretation) for “paragraph 79(1)(a)” substitute “Article 239A(1)(a)”.
- 36.—(1) Schedule 11 (modifications of Part IX for banking and insurance companies)(**30**) is amended as follows.
- (2) In paragraph 5, for “Article 234” substitute “Articles 234, 234A and 234B”.
- (3) At the beginning of paragraph 9 insert “In the case of Companies Order accounts,”.

(25) Schedule 4 was amended by Article 6(2) of, and Schedule 1 to, the Companies (Northern Ireland) Order 1990

(26) Paragraph 25 and its internal cross-references were renumbered by Article 8(4) of, and paragraph 4 of Schedule 4 to, the Companies (Northern Ireland) Order 1990

(27) Paragraph 12 was inserted by [S.R. 1997 No. 314](#) and substituted by [S.R. 1997 No. 501](#)

(28) Parts I to III of Schedule 9 were inserted before a re-numbered Schedule 9A by [S.R. 1992 No. 258](#). Part IV of Schedule 9 was substituted by Article 20(3) and (4) of, and Part IV of Schedule 7 to, the Companies (Northern Ireland) Order 1990

(29) Parts I and II of Schedule 9 to the 1986 Order were formed into a new Schedule 9A by [S.R. 1992 No. 258](#). A new Schedule 9A was substituted by [S.R. 1994 No. 428](#)

(30) Schedule 11 was amended by Article 25 of, and paragraph 24 of Schedule 10 to, the Companies (Northern Ireland) Order 1990, [S.R. 1992 No. 258](#), [S.R. 1994 No. 428](#) and [S.R. 1997 No. 314](#)

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- (4) In paragraph 10, for “Article 234” substitute “Articles 234, 234A and 234B”.

SCHEDULE 2

Regulation 14(1)

FORM AND CONTENT OF COMPANY ACCOUNTS

1. Schedule 4 to the 1986 Order (form and content of company accounts) is amended as follows.
2. Omit sub-paragraph (7) of paragraph 3 (dividends in profit and loss account to be shown as separate items)(31).
3. After paragraph 5 insert –
 - “5A. The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.”.
- 4.—(1) In the Balance Sheet Formats, for “provisions for liabilities and charges”, wherever occurring, substitute “provisions for liabilities”.
 - (2) That expression occurs –
 - (a) in Balance Sheet Format 1, in Item I;
 - (b) in Balance Sheet Format 2, under the heading “LIABILITIES”, in Item B.
- 5.—(1) Part II (accounting principles and rules) is amended as follows.
 - (2) In paragraph 12(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.
 - (3) In paragraph 16 (general requirement to use historical cost accounting), for “Subject to section C” substitute “Subject to sections C and D”.
 - (4) 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;

(31) Paragraph 3(7) was amended by [S.R. 1997 No. 314](#)

- (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.

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(2) Notwithstanding paragraph 12 and subject to sub-paragraphs (3) and (4), 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 to or debited from the fair value reserve must be disclosed in a note to the accounts.”.

6.—(1) Part III (notes to the accounts) is amended as follows.

(2) After paragraph 35 insert –

“Reserves and dividends

35A. There must be stated –

(a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,

(b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),

(c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and

(d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under sub-paragraph (b) or (c).”.

(3) After paragraph 45(32) insert –

“Information about fair value of assets and liabilities

45A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 34A or 34C.

(2) There must be stated –

(32) Paragraph 45 was amended by [S.R. 1997 No. 314](#)

- (a) where the fair value of the instruments has been determined in accordance with paragraph 34B(4), the significant assumptions underlying the valuation models and techniques used,
 - (b) for each category of financial instruments, the fair value of the instruments in that category and the changes in value –
 - (i) included in the profit and loss account, or
 - (ii) credited to or (as the case may be) debited from the fair value reserve, in respect of those instruments, and
 - (c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.
- (3) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form –
- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
 - (b) the amount transferred to or from the reserve during that year; and
 - (c) the source and application respectively of the amounts so transferred.

45B. Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives –

- (a) the fair value of the derivatives in that class, if such a value can be determined in accordance with paragraph 34B, and
- (b) the extent and nature of the derivatives.

45C.—(1) Sub-paragraph (2) applies if –

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 34A,
- (b) the amount at which those assets are included under any item in the company's accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 19(1).

(2) There must be stated –

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

45D.—(1) This paragraph applies where the amounts to be included in a company's accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 34D.

(2) The balance sheet 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.

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(3) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts –

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”.

(4) In paragraph 46(1) (transfers to and from reserves and provisions) –

- (a) in sub-paragraph (b), for “provisions for liabilities and charges” substitute “provisions for liabilities”;
- (b) in sub-paragraph (c), for “provision for liabilities and charges” substitute “provision for liabilities”.

7.—(1) Part V (special provisions where the company is an investment company) is amended as follows.

(2) In paragraph 72(2) (distributions by investment companies), for “provision for liabilities or charges” substitute “provision for liabilities”.

8.—(1) Part VII (interpretation of Schedule) is amended as follows.

(2) After paragraph 76 (interpretation) insert –

“Financial instruments

76A. References to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or in some other financial instrument, except when such contracts –

- (a) were entered into for the purpose of, and continue to meet, the company’s expected purchase, sale or usage requirements,
- (b) were designed for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

76B.—(1) The expressions listed in sub-paragraph (2) have the same meaning as they have in Council Directive [78/660/EEC](#) on the annual accounts of certain types of companies, as amended⁽³³⁾.

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging

⁽³³⁾ O.J. No. L222 of 14.8.1978, page 11, as amended in particular by Directive [2001/65/EEC](#) (O.J. No. L238 of 27.10.2001, page 28)

instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.”.

(3) After paragraph 81 insert –

“Investment property

81A. “Investment property” means land held to earn rent or for capital appreciation.”.

(4) In paragraph 88 (interpretation of references to provisions for liabilities or charges) –

(a) for “provisions for liabilities or charges” substitute “provisions for liabilities”, and

(b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 3

Regulation 14(2)

FORM AND CONTENT OF ACCOUNTS PREPARED BY SMALL COMPANIES

1. Schedule 8 to the 1986 Order (form and content of small company accounts)(**34**) is amended as follows.

2. Omit sub-paragraph (7) of paragraph 3 (dividends in profit and loss account to be shown as separate items).

3. After paragraph 5 insert –

“5A. The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.”.

4.—(1) In the Balance Sheet Formats, for “provisions for liabilities and charges”, wherever occurring, substitute “provisions for liabilities”.

(2) That expression occurs –

(a) in Balance Sheet Format 1, in Item I;

(b) in Balance Sheet Format 2, under the heading “LIABILITIES”, in Item B.

5.—(1) Part II (accounting principles and rules) is amended as follows.

(2) In paragraph 12(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.

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

(4) After section C insert –

(34) Schedule 8 was substituted by [S.R. 1997 No. 436](#)

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*“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, and subject to sub-paragraphs (3) and (4), 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 to or debited from the fair value reserve must be disclosed in a note to the accounts.”.

6.—(1) Part III (notes to the accounts) is amended as follows.

(2) After paragraph 35 insert –

“Reserves and dividends

35A. There must be stated –

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,

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- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
 - (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
 - (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under sub-paragraph (b) or (c).”.
- (3) After paragraph 42 insert –

“Information about fair value of assets and liabilities

42A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 34A or 34C.

(2) There must be stated –

- (a) where the fair value of the instruments has been determined in accordance with paragraph 34B(4), the significant assumptions underlying the valuation models and techniques used,
- (b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value –
 - (i) included in the profit and loss account, and
 - (ii) credited to or (as the case may be) debited from the fair value reserve, in respect of those instruments, and
- (c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

(3) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form –

- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) the amount transferred to or from the reserve during that year; and
- (c) the source and application respectively of the amounts so transferred.

42B.—(1) Sub-paragraph (2) applies if –

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 34A,
- (b) the amount at which those assets are included under any item in the company’s accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 19(1).

(2) There must be stated –

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company’s accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

42C.—(1) This paragraph applies where the amounts to be included in a company's accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 34D.

(2) The balance sheet 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) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts –

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”.

(4) In paragraph 43(1) (transfers to and from reserves and provisions) –

- (a) in sub-paragraph (b), for “provisions for liabilities and charges” substitute “provisions for liabilities”;
- (b) in sub-paragraph (c), for “provision for liabilities and charges” substitute “provision for liabilities”.

7.—(1) Part IV (interpretation of Schedule) is amended as follows.

(2) After paragraph 52 (interpretation) insert –

“Financial instruments

52A. References to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or in some other financial instrument, except when such contracts –

- (a) were entered into for the purpose of, and continue to meet, the company's expected purchase, sale or usage requirements,
- (b) were designed for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

52B.—(1) The expressions listed in sub-paragraph (2) have the same meaning as they have in Council Directive [78/660/EEC](#) on the annual accounts of certain types of companies, as amended⁽³⁵⁾.

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”,

⁽³⁵⁾ O.J. No. L222 of 14.8.1978, page 11, as amended in particular by Directive [2001/65/EEC](#) (O.J. No. L238 of 27.10.2001, page 28)

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“fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.”.

(3) After paragraph 53 insert –

“Investment property

53A. “Investment property” means land held to earn rent or for capital appreciation.”.

(4) In paragraph 58 (interpretation of references to provisions for liabilities or charges) –

- (a) for “provisions for liabilities of charges” substitute “provisions for liabilities”, and
- (b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 4

Regulation 14(3)

FORM AND CONTENT OF ABBREVIATED ACCOUNTS OF SMALL COMPANIES DELIVERED TO REGISTRAR

1. Schedule 8A to the 1986 Order (form and content of small company accounts delivered to registrar)(36) is amended as follows.

2.—(1) In the Balance Sheet Formats, for “provisions for liabilities and charges”, wherever occurring, substitute “provisions for liabilities”.

(2) That expression occurs –

- (a) in Balance Sheet Format 1, in Item I; and
- (b) in Balance Sheet Format 2, under the heading “LIABILITIES”, in Item B.

3. After paragraph 7 (notes to be included in small company accounts delivered to registrar) insert –

“Financial fixed assets

7A.—(1) Sub-paragraph (2) applies if –

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 34A of Schedule 8,
- (b) the amount at which those assets are included under any item in the company’s accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 19(1) of that Schedule.

(2) There must be stated –

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company’s accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.”.

(36) Schedule 8A was inserted into the 1986 Order by S.R. 1997 No. 436

SCHEDULE 5

Regulation 14(4)

FORM AND CONTENT OF ACCOUNTS OF BANKING COMPANIES AND GROUPS

1. Part I of Schedule 9 to the 1986 Order (form and content of accounts of banking companies and groups) is amended as follows.
2. Omit paragraph 8 (dividends in profit and loss account to be shown as separate items)(37).
3. After paragraph 8 insert –
 - “8A. The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.”
4. In the Balance Sheet Format, under the heading “LIABILITIES”, for “Provisions for liabilities and charges” substitute “Provisions for liabilities”.
5. In paragraph 19(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.
6. In paragraph 23 (preliminary paragraph on historical cost accounting rules) for “paragraphs 39 to 44” substitute “paragraphs 39 to 44F”.
7. After paragraph 44 insert –

“FAIR VALUE ACCOUNTING

Inclusion of financial instruments at fair value

44A.—(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 44B, sub-paragraph (1) does not apply to that financial instrument.

(5) In this paragraph –

(37) Paragraph 8 was amended by [S.R. 1997 No. 314](#)

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“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

44B.—(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

44C. 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

44D.—(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

44E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 44A or 44C or an asset is valued in accordance with paragraph 44D.

(2) Notwithstanding paragraph 19, and subject to sub-paragraphs (3) and (4), 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 (“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

44F.—(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 44E(3) or (4).

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

8.—(1) Chapter III (notes to the accounts) is amended as follows.

(2) After paragraph 50 insert –

“Reserves and dividends

50A. There must be stated –

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,
- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
- (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
- (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under sub-paragraph (b) or (c).”.

(3) After paragraph 58 insert –

“Information about fair value of assets and liabilities

58A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 44A or 44C.

(2) There must be stated –

- (a) where the fair value of the instruments has been determined in accordance with paragraph 44B(4), the significant assumptions underlying the valuation models and techniques used,
- (b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value –
 - (i) included in the profit and loss account, and
 - (ii) credited to or (as the case may be) debited from the fair value reserve,in respect of those instruments, and

- (c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

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(3) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form –

- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) the amount transferred to or from the reserve during that year; and
- (c) the source and application respectively of the amounts so transferred.

58B. Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives –

- (a) the fair value of the derivatives in that class, if such a value can be determined in accordance with paragraph 44B, and
- (b) the extent and nature of the derivatives.

58C.—(1) Sub-paragraph (2) applies if –

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 44A,
- (b) the amount at which those assets are included under any item in the company's accounts is in excess of their fair value, and
- (c) the company has not made provision for diminution in value of those assets in accordance with paragraph 26(1).

(2) There must be stated –

- (a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,
- (b) the fair value of those assets or groupings, and
- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

58D.—(1) This paragraph applies where the amounts to be included in a company's accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 44D.

(2) The balance sheet 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) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts –

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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.”.
 - (4) In paragraph 59(1) (transfers to and from reserves and provisions) –
 - (a) in sub-paragraph (b), for “provisions for liabilities and charges” substitute “provisions for liabilities”, and
 - (b) in sub-paragraph (c), for “provision for liabilities and charges” substitute “provision for liabilities”.
- 9.—(1) Chapter IV (interpretation of Part I) is amended as follows.
- (2) In paragraph 82 (general interpretation), at the appropriate place, insert –
““Investment property” means land held to earn rent or for capital appreciation;”.
 - (3) After paragraph 82 insert –

“Financial instruments

82A. For the purposes of this Part, references to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or in some other financial instrument, except when such contracts –

- (a) were entered into for the purpose of, and continue to meet, the company’s expected purchase, sale or usage requirements,
- (b) were designed for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

82B.—(1) The expressions listed in sub-paragraph (2) have the same meaning in paragraphs 44A to 44F, 58A to 58C and 82A of this Part as they have in Council Directives [78/660/EEC](#) on the annual accounts of certain types of companies and [86/635/EEC](#) on the annual accounts and consolidated accounts of banks and other financial institutions, as amended⁽³⁸⁾.

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivative”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.

- (4) In paragraph 85(c) (interpretation of references to provisions for liabilities or charges) –
 - (a) for “provisions for liabilities or charges” substitute “provisions for liabilities”, and
 - (b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 6

Regulation 14(5)

FORM AND CONTENT OF ACCOUNTS OF INSURANCE COMPANIES AND GROUPS

1. Part I of Schedule 9A to the 1986 Order (form and content of accounts of insurance companies and groups) is amended as follows.

⁽³⁸⁾ O.J. No. L222 of 14.8.1978, page 11, and O.J. No. L372 of 31.12.1986, page 1, as amended in particular by Directive [2001/65/EEC](#) (O.J. No. L238 of 27.10.2001, page 28)

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2. Omit paragraph 5 (dividends in profit and loss account to be shown as separate items)(39).
3. After paragraph 6 insert –
 - “6A. The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.”.
4. In the Balance Sheet Format, under the heading “LIABILITIES”, for “Provisions for other risks and charges” substitute “Provisions for other risks”.
5. In paragraph 16(b) (extent to which liabilities and losses to be taken into account) omit “and losses” and “or are likely to arise”.
- 6.—(1) After paragraph 19 insert –

“Valuation

- 19A.—(1) The amounts to be included in respect of assets of any description mentioned in paragraph 22 (valuation of assets: general) are determined either –
 - (a) in accordance with that paragraph and paragraph 24 (but subject to paragraphs 27 to 29); or
 - (b) so far as applicable to an asset of that description, in accordance with section BA (valuation at fair value).
- (2) The amounts to be included in respect of assets of any description mentioned in paragraph 23 (alternative valuation of fixed-income securities) may be determined –
 - (a) in accordance with that paragraph (but subject to paragraphs 27 to 29); or
 - (b) so far as applicable to an asset of that description, in accordance with section BA.
- (3) The amounts to be included in respect of assets which –
 - (a) are not assets of a description mentioned in paragraph 22 or 23, but
 - (b) are assets of a description to which section BA is applicable,may be determined in accordance with that section.
- (4) Subject to sub-paragraphs (1) to (3), the amounts to be included in respect of all items shown in a company’s accounts are determined in accordance with section C.”.
- (2) Omit paragraph 20 (preliminary paragraph on current value accounting rules).
- 7.—(1) In Chapter II (accounting principles and rules), after paragraph 29 insert –

*“SECTION BA
valuation at fair value*

Inclusion of financial instruments at fair value

- 29A.—(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 –

(39) Paragraph 5 was amended by [S.R. 1997 No. 314](#)

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- (a) they are held as part of a trading portfolio, or
 - (b) they are derivatives.
- (3) Except where they fall to be included under Assets item D (assets held to cover linked liabilities), 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 29B, 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

29B.—(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

29C. 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

29D.—(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.

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

Accounting for changes in value

29E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 29A or 29C or an asset is valued in accordance with paragraph 29D.

(2) Notwithstanding paragraph 16, and subject to sub-paragraphs (3) and (4), 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

29F.—(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 29E(3) or (4).

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

(2) Omit paragraph 30 (preliminary paragraph on historical cost accounting rules).

8.—(1) Chapter III (notes to the accounts) is amended as follows.

(2) After paragraph 57 insert –

“Reserves and dividends

57A. There must be stated –

- (a) any amount set aside or proposed to be set aside to, or withdrawn or proposed to be withdrawn from, reserves,
- (b) the aggregate amount of dividends paid in the financial year (other than those for which a liability existed at the immediately preceding balance sheet date),
- (c) the aggregate amount of dividends that the company is liable to pay at the balance sheet date, and
- (d) the aggregate amount of dividends that are proposed before the date of approval of the accounts, and not otherwise disclosed under sub-paragraph (b) or (c).”.

(3) After paragraph 65 (information supplementing the balance sheet)(40) insert –

“Information about fair value of assets and liabilities

65A.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 29A or 29C.

(2) The items affected and the basis of valuation adopted in determining the amounts of the financial instruments must be disclosed.

(3) The purchase price of the financial instruments must be disclosed.

(4) There must be stated –

(a) where the fair value of the instruments has been determined in accordance with paragraph 29B(4), the significant assumptions underlying the valuation models and techniques used,

(b) for each category of financial instrument, the fair value of the instruments in that category and the changes in value –

(i) included in the profit and loss account, or

(ii) credited to or (as the case may be) debited from the fair value reserve,

in respect of those instruments, and

(c) for each class of derivatives, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

(5) Where any amount is transferred to or from the fair value reserve during the financial year, there must be stated in tabular form –

(a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;

(b) the amount transferred to or from the reserve during that year; and

(c) the source and application respectively of the amounts so transferred.

65B. Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives –

(a) the fair value of the derivatives in that class, if such a value can be determined in accordance with paragraph 29B, and

(b) the extent and nature of the derivatives.

65C.—(1) Sub-paragraph (2) applies if –

(a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 29A,

(b) the amount at which those assets are included under any item in the company's accounts is in excess of their fair value, and

(c) the company has not made provision for diminution in value of those assets in accordance with paragraph 33(2).

(2) There must be stated –

(a) the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,

(b) the fair value of those assets or groupings, and

(40) Paragraph 65 was amended by [S.R. 1997 No. 314](#)

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- (c) the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Information where investment property and living animals and plants included at fair value

65D.—(1) This paragraph applies where the amounts to be included in a company's accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 29D.

(2) The balance sheet 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) In the case of investment property, for each balance sheet item affected there must be shown, either separately in the balance sheet or in a note to the accounts –

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph 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 or depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.”.

(4) In paragraph 66(1)(b) and (c) (transfers to or from provisions)(41), for “provisions for other risks and charges” substitute “provisions for other risks”.

9.—(1) Chapter IV (interpretation of Part I) is amended as follows.

(2) In paragraph 81 (general interpretation)(42), at the appropriate place, insert –

““investment property” means land held to earn rent or for capital appreciation;”.

(3) After paragraph 81 insert –

“Financial instruments

81A. For the purposes of this Part, references to “derivatives” include commodity-based contracts that give either contracting party the right to settle in cash or some other financial instrument, except when such contracts –

- (a) were entered into for the purpose of, and continue to meet, the company's expected purchase, sale or usage requirements,
- (b) were designated for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

81B.—(1) The expressions listed in sub-paragraph (2) have the same meaning in section BA of Chapter II and paragraphs 65A to 65C and 81A as they have in Council Directives

(41) Paragraph 66 was amended by S.R. 1997 No. 314

(42) Paragraph 81 was amended by S.I. 2001/3649

[78/660/EEC](#) on the annual accounts of certain types of companies and [91/674/EEC](#) on the annual accounts and consolidated accounts of insurance undertakings, as amended(**43**).

(2) Those expressions are “available for sale financial asset”, “business combination”, “commodity-based contracts”, “derivatives”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedge items”, “hedging instrument”, “held for trading purposes”, “held to maturity”, “monetary item”, “receivables”, “reliable market” and “trading portfolio”.

- (4) In paragraph 84(c) (interpretation of references to provisions for risks and charges)(**44**) –
- (a) for “provisions for other risks and charges” substitute “provisions for other risks”, and
 - (b) for “or loss” substitute “the nature of which is clearly defined and”.

SCHEDULE 7

Regulation 15

MINOR AND CONSEQUENTIAL AMENDMENTS

PART I

AMENDMENTS OF THE COMPANIES (NORTHERN IRELAND) ORDER 1986

1. The following minor and consequential amendments to the 1986 Order have effect.
2. In Article 162(2) (definition of “net assets” for Chapter VI of Part VI), for “provision for liabilities or charges” substitute “provision for liabilities”.
3. In Article 164(2)(b) (definition of “liabilities” for the purposes of the “net asset” test) for “or loss” substitute “the nature of which is clearly defined and”.
- 4.—(1) Article 236 (exemption for parent companies included in accounts of larger group) is amended as follows.
 - (2) In paragraphs (1) and (2)(a) for “a member State of the European Economic Community” substitute “an EEA State”.
 - (3) In paragraph (3), omit from “listed” to the end, and substitute “admitted to trading on a regulated market of any EEA State within the meaning of Council Directive [93/22/EEC](#) on investment services in the securities field”.
5. In Article 239(5)(b) (disclosure required in notes to accounts of undertakings excluded from consolidation)(**45**), omit “or (4)”.
6. Omit Article 251 (accounts of subsidiary undertakings to be appended in certain cases)(**46**).
7. In Article 268 (definition of “participating interest”)(**47**), omit paragraph (5).

(43) O.J. No. L222 of 14.8.1978, page 11, and O.J. No. L374 of 31.12.1991, page 7, as amended in particular by Article 4 of Directive [2003/51/EEC](#) of the European Parliament and of the Council (O.J. No. L178 of 17.7.2003, page 16)

(44) Paragraph 84(c) was amended by [S.R. 1997 No. 314](#)

(45) Article 239 was inserted into the 1986 Order by Article 8 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number and paragraph (5) was amended by [S.R. 1997 No. 314](#)

(46) Article 251 was inserted into the 1986 Order by Article 13 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number

(47) Article 268 was inserted into the 1986 Order by Article 24 of the Companies (Northern Ireland) Order 1990 in place of an existing Article of that number and amended by [S.R. 1994 No. 428](#) and [S.R. 1997 No. 436](#)

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8. In Article 272(2) (restriction on distribution of assets), for “provision for liabilities or charges” substitute “provision for liabilities”.

9. In Article 273(2) (other distributions by investment companies), for “provision for liabilities or charges” substitute “provision for liabilities”.

10. In Schedule 4A (interests in subsidiary undertakings excluded from consolidation)(**48**), omit paragraph 18.

11. In paragraph 25 of Schedule 6 (disclosure of information: emoluments and other benefits of directors and others), for “provisions for liabilities or charges” substitute “provisions for liabilities”.

12. In Part II of Schedule 9 (undertakings to be included in consolidation), omit paragraph 1.

PART II

AMENDMENTS OF OTHER STATUTORY PROVISIONS

13. In the Government Resources and Accounts Act (Northern Ireland) 2001(**49**), in –

- (a) section 9(4)(a) (accounts of government departments), and
- (b) section 14(5)(a) (whole of government accounts),

after “(accounting standards)” insert “or to the international accounting standards, within the meaning of EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19th July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation”.

(48) Schedule 4A was inserted by Article 7(2) of, and Schedule 2 to, the Companies (Northern Ireland) Order 1990
(49) 2001 c. 6 (N.I.)