

## SCHEDULE 1

Regulation 3(1)

### COMPANIES ACT INDIVIDUAL ACCOUNTS: COMPANIES WHICH ARE NOT BANKING OR INSURANCE COMPANIES

#### PART 1

#### GENERAL RULES AND FORMATS

##### SECTION A

##### GENERAL RULES

- 1.—(1) Subject to the following provisions of this Schedule—
- (a) every balance sheet of a company must show the items listed in either of the balance sheet formats in Section B of this Part, and
  - (b) every profit and loss account must show the items listed in any one of the profit and loss account formats in Section B.
- (2) References in this Schedule to the items listed in any of the formats in Section B are to those items read together with any of the notes following the formats which apply to those items.
- (3) The items must be shown in the order and under the headings and sub-headings given in the particular format used, but—
- (a) the notes to the formats may permit alternative positions for any particular items, and
  - (b) the heading or sub-heading for any item does not have to be distinguished by any letter or number assigned to that item in the format used.
- 2.—(1) Where in accordance with paragraph 1 a company's balance sheet or profit and loss account for any financial year has been prepared by reference to one of the formats in Section B, the company's directors must use the same format in preparing Companies Act individual accounts for subsequent financial years, unless in their opinion there are special reasons for a change.
- (2) Particulars of any such change must be given in a note to the accounts in which the new format is first used, and the reasons for the change must be explained.
- 3.—(1) Any item required to be shown in a company's balance sheet or profit and loss account may be shown in greater detail than required by the particular format used.
- (2) The balance sheet or profit and loss account may include an item representing or covering the amount of any asset or liability, income or expenditure not otherwise covered by any of the items listed in the format used, save that none of the following may be treated as assets in any balance sheet—
- (a) preliminary expenses,
  - (b) expenses of, and commission on, any issue of shares or debentures, and
  - (c) costs of research.
- 4.—(1) Where the special nature of the company's business requires it, the company's directors must adapt the arrangement, headings and sub-headings otherwise required in respect of items given an Arabic number in the balance sheet or profit and loss account format used.
- (2) The directors may combine items to which Arabic numbers are given in any of the formats in Section B if—

- (a) their individual amounts are not material to assessing the state of affairs or profit or loss of the company for the financial year in question, or
  - (b) the combination facilitates that assessment.
- (3) Where sub-paragraph (2)(b) applies, the individual amounts of any items which have been combined must be disclosed in a note to the accounts.

5.—(1) Subject to sub-paragraph (2), the directors must not include a heading or sub-heading corresponding to an item in the balance sheet or profit and loss account format used if there is no amount to be shown for that item for the financial year to which the balance sheet or profit and loss account relates.

(2) Where an amount can be shown for the item in question for the immediately preceding financial year that amount must be shown under the heading or sub-heading required by the format for that item.

6. Every profit and loss account must show the amount of a company's profit or loss on ordinary activities before taxation.

7.—(1) For every item shown in the balance sheet or profit and loss account the corresponding amount for the immediately preceding financial year must also be shown.

(2) Where that corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the balance sheet or profit and loss account relates, the former amount may be adjusted, and particulars of the non-comparability and of any adjustment must be disclosed in a note to the accounts.

8. Amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa.

9. The company's directors 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.

## SECTION B

### THE REQUIRED FORMATS FOR ACCOUNTS(1)

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#### Balance sheet formats

##### *Format 1*

- A. Called up share capital not paid (1)
- B. Fixed assets
  - I. Intangible assets
    - 1. Development costs
    - 2. Concessions, patents, licences, trade marks and similar rights and assets (2)
    - 3. Goodwill (3)
    - 4. Payments on account

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(1) A number in brackets following any item is a reference to the note of that number in the notes following the formats.

## II. Tangible assets

1. Land and buildings
2. Plant and machinery
3. Fixtures, fittings, tools and equipment
4. Payments on account and assets in course of construction

## III. Investments

1. Shares in group undertakings
2. Loans to group undertakings
3. Participating interests
4. Loans to undertakings in which the company has a participating interest
5. Other investments other than loans
6. Other loans
7. Own shares (4)

## C. Current assets

### I. Stocks

1. Raw materials and consumables
2. Work in progress
3. Finished goods and goods for resale
4. Payments on account

### II. Debtors (5)

1. Trade debtors
2. Amounts owed by group undertakings
3. Amounts owed by undertakings in which the company has a participating interest
4. Other debtors
5. Called up share capital not paid (1)
6. Prepayments and accrued income (6)

### III. Investments

1. Shares in group undertakings
2. Own shares (4)
3. Other investments

### IV. Cash at bank and in hand

## D. Prepayments and accrued income (6)

- E. Creditors: amounts falling due within one year
  - 1. Debenture loans (7)
  - 2. Bank loans and overdrafts
  - 3. Payments received on account (8)
  - 4. Trade creditors
  - 5. Bills of exchange payable
  - 6. Amounts owed to group undertakings
  - 7. Amounts owed to undertakings in which the company has a participating interest
  - 8. Other creditors including taxation and social security (9)
  - 9. Accruals and deferred income (10)
  
- F. Net current assets (liabilities) (11)
  
- G. Total assets less current liabilities
  
- H. Creditors: amounts falling due after more than one year
  - 1. Debenture loans (7)
  - 2. Bank loans and overdrafts
  - 3. Payments received on account (8)
  - 4. Trade creditors
  - 5. Bills of exchange payable
  - 6. Amounts owed to group undertakings
  - 7. Amounts owed to undertakings in which the company has a participating interest
  - 8. Other creditors including taxation and social security (9)
  - 9. Accruals and deferred income (10)
  
- I. Provisions for liabilities
  - 1. Pensions and similar obligations
  - 2. Taxation, including deferred taxation
  - 3. Other provisions
  
- J. Accruals and deferred income (10)
  
- K. Capital and reserves

- I. Called up share capital (12)
  - II. Share premium account
  - III. Revaluation reserve
  - IV. Other reserves
    - 1. Capital redemption reserve
    - 2. Reserve for own shares
    - 3. Reserves provided for by the articles of association
    - 4. Other reserves
  - V. Profit and loss account
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### **Balance sheet formats**

#### *Format 2*

#### ASSETS

- A. Called up share capital not paid (1)
- B. Fixed assets
  - I. Intangible assets
    - 1. Development costs
    - 2. Concessions, patents, licences, trade marks and similar rights and assets (2)
    - 3. Goodwill (3)
    - 4. Payments on account
  - II. Tangible assets
    - 1. Land and buildings
    - 2. Plant and machinery
    - 3. Fixtures, fittings, tools and equipment
    - 4. Payments on account and assets in course of construction
  - III. Investments
    - 1. Shares in group undertakings
    - 2. Loans to group undertakings
    - 3. Participating interests
    - 4. Loans to undertakings in which the company has a participating interest
    - 5. Other investments other than loans
    - 6. Other loans

7. Own shares (4)

C. Current assets

I. Stocks

1. Raw materials and consumables
2. Work in progress
3. Finished goods and goods for resale
4. Payments on account

II. Debtors (5)

1. Trade debtors
2. Amounts owed by group undertakings
3. Amounts owed by undertakings in which the company has a participating interest
4. Other debtors
5. Called up share capital not paid (1)
6. Prepayments and accrued income (6)

III. Investments

1. Shares in group undertakings
2. Own shares (4)
3. Other investments

IV. Cash at bank and in hand

D. Prepayments and accrued income (6)

LIABILITIES

A. Capital and reserves

- I. Called up share capital (12)
- II. Share premium account
- III. Revaluation reserve
- IV. Other reserves
  1. Capital redemption reserve
  2. Reserve for own shares
  3. Reserves provided for by the articles of association
  4. Other reserves

V. Profit and loss account

B. Provisions for liabilities

1. Pensions and similar obligations
2. Taxation, including deferred taxation
3. Other provisions

C. Creditors (13)

1. Debenture loans (7)
2. Bank loans and overdrafts
3. Payments received on account (8)
4. Trade creditors
5. Bills of exchange payable
6. Amounts owed to group undertakings
7. Amounts owed to undertakings in which the company has a participating interest
8. Other creditors including taxation and social security (9)
9. Accruals and deferred income (10)

D. Accruals and deferred income (10)

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**Notes on the balance sheet formats**

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(1) *Called up share capital not paid*

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(Formats 1 and 2, items A and C.II.5.)

This item may be shown in either of the two positions given in formats 1 and 2.

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(2) *Concessions, patents, licences, trade marks and similar rights and assets*

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(Formats 1 and 2, item B.I.2.)

Amounts in respect of assets are only to be included in a company's balance sheet under this item if either—

- (a) the assets were acquired for valuable consideration and are not required to be shown under goodwill, or
- (b) the assets in question were created by the company itself.

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(3) *Goodwill*

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(Formats 1 and 2, item B.I.3.)

Amounts representing goodwill are only to be included to the extent that the goodwill was acquired for valuable consideration.

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(4) *Own shares*

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(Formats 1 and 2, items B.III.7 and C.III.2.)

The nominal value of the shares held must be shown separately.

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(5) *Debtors*

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(Formats 1 and 2, items C.II.1 to 6.)

The amount falling due after more than one year must be shown separately for each item included under debtors.

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(6) *Prepayments and accrued income*

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(Formats 1 and 2, items C.II.6 and D.)

This item may be shown in either of the two positions given in formats 1 and 2.

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(7) *Debenture loans*

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(Format 1, items E.1 and H.1 and format 2, item C.1.)

The amount of any convertible loans must be shown separately.

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(8) *Payments received on account*

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(Format 1, items E.3 and H.3 and format 2, item C.3.)

Payments received on account of orders must be shown for each of these items in so far as they are not shown as deductions from stocks.

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(9) *Other creditors including taxation and social security*

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(Format 1, items E.8 and H.8 and format 2, item C.8.)

The amount for creditors in respect of taxation and social security must be shown separately from the amount for other creditors.

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(10) *Accruals and deferred income*

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(Format 1, items E.9, H.9 and J and format 2, items C.9 and D.)

The two positions given for this item in format 1 at E.9 and H.9 are an alternative to the position at J, but if the item is not shown in a position corresponding to that at J it may be shown in either or both of the other two positions (as the case may require).

The two positions given for this item in format 2 are alternatives.

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(11) *Net current assets (liabilities)*

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(Format 1, item F.)



In determining the amount to be shown for this item any amounts shown under “prepayments and accrued income” must be taken into account wherever shown.

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*(12) Called up share capital*

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(Format 1, item K.I and format 2, item A.I.)

The amount of allotted share capital and the amount of called up share capital which has been paid up must be shown separately.

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*(13) Creditors*

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(Format 2, items C.1 to 9.)

Amounts falling due within one year and after one year must be shown separately for each of these items and for the aggregate of all of these items.

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**Profit and loss account formats(2)**

*Format 1*  
*(see note (17) below)*

1. Turnover
2. Cost of sales *(14)*
3. Gross profit or loss
4. Distribution costs *(14)*
5. Administrative expenses *(14)*
6. Other operating income
7. Income from shares in group undertakings
8. Income from participating interests
9. Income from other fixed asset investments *(15)*

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(2) See regulation 4(3)(a) for exemption for medium-sized companies in accounts delivered to registrar of companies.

**Draft Legislation:** This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument:  
*The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 No. 410*

10. Other interest receivable and similar income (15)
11. Amounts written off investments
12. Interest payable and similar charges (16)
13. Tax on profit or loss on ordinary activities
14. Profit or loss on ordinary activities after taxation
15. Extraordinary income
16. Extraordinary charges
17. Extraordinary profit or loss
18. Tax on extraordinary profit or loss
19. Other taxes not shown under the above items
20. Profit or loss for the financial year

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**Profit and loss account formats(3)**

*Format 2*

1. Turnover
2. Change in stocks of finished goods and in work in progress
3. Own work capitalised
4. Other operating income
5. (a) Raw materials and consumables

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(3) See regulation 4(3)(a) for exemption for medium-sized companies in accounts delivered to registrar of companies.

- (b) Other external charges
6. Staff costs
    - (a) wages and salaries
    - (b) social security costs
    - (c) other pension costs
  7.
    - (a) Depreciation and other amounts written off tangible and intangible fixed assets
    - (b) Exceptional amounts written off current assets
  8. Other operating charges
  9. Income from shares in group undertakings
  10. Income from participating interests
  11. Income from other fixed asset investments (15)
  12. Other interest receivable and similar income (15)
  13. Amounts written off investments
  14. Interest payable and similar charges (16)
  15. Tax on profit or loss on ordinary activities
  16. Profit or loss on ordinary activities after taxation
  17. Extraordinary income
  18. Extraordinary charges
  19. Extraordinary profit or loss
  20. Tax on extraordinary profit or loss

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21. Other taxes not shown under the above items

22. Profit or loss for the financial year

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**Profit and loss account formats(4)**

*Format 3*  
*(see note (17) below)*

A. Charges

1. Cost of sales (14)
2. Distribution costs (14)
3. Administrative expenses (14)
4. Amounts written off investments
5. Interest payable and similar charges (16)
6. Tax on profit or loss on ordinary activities
7. Profit or loss on ordinary activities after taxation
8. Extraordinary charges
9. Tax on extraordinary profit or loss
10. Other taxes not shown under the above items
11. Profit or loss for the financial year

B. Income

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(4) See regulation 4(3)(a) for exemption for medium-sized companies in accounts delivered to registrar of companies.

1. Turnover
  2. Other operating income
  3. Income from shares in group undertakings
  4. Income from participating interests
  5. Income from other fixed asset investments (15)
  6. Other interest receivable and similar income (15)
  7. Profit or loss on ordinary activities after taxation
  8. Extraordinary income
  9. Profit or loss for the financial year
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**Profit and loss account formats(5)**

*Format 4*

A. Charges

1. Reduction in stocks of finished goods and in work in progress
2.
  - (a) Raw materials and consumables
  - (b) Other external charges
3. Staff costs
  - (a) wages and salaries
  - (b) social security costs
  - (c) other pension costs

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(5) See regulation 4(3)(a) for exemption for medium-sized companies in accounts delivered to registrar of companies.

**Draft Legislation:** This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument:  
*The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 No. 410*

4. (a) Depreciation and other amounts written off tangible and intangible fixed assets
- (b) Exceptional amounts written off current assets
5. Other operating charges
6. Amounts written off investments
7. Interest payable and similar charges (16)
8. Tax on profit or loss on ordinary activities
9. Profit or loss on ordinary activities after taxation
10. Extraordinary charges
11. Tax on extraordinary profit or loss
12. Other taxes not shown under the above items
13. Profit or loss for the financial year

B. Income

1. Turnover
2. Increase in stocks of finished goods and in work in progress
3. Own work capitalised
4. Other operating income
5. Income from shares in group undertakings
6. Income from participating interests

7. Income from other fixed asset investments (15)
8. Other interest receivable and similar income (15)
9. Profit or loss on ordinary activities after taxation
10. Extraordinary income
11. Profit or loss for the financial year

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**Notes on the profit and loss account formats**

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*(14) Cost of sales: distribution costs: administrative expenses*

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(Format 1, items 2, 4 and 5 and format 3, items A.1, 2 and 3.)

These items must be stated after taking into account any necessary provisions for depreciation or diminution in value of assets.

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*(15) Income from other fixed asset investments: other interest receivable and similar income*

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(Format 1, items 9 and 10; format 2, items 11 and 12; format 3, items B.5 and 6 and format 4, items B.7 and 8.)

Income and interest derived from group undertakings must be shown separately from income and interest derived from other sources.

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*(16) Interest payable and similar charges*

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(Format 1, item 12; format 2, item 14; format 3, item A.5 and format 4, item A.7.)

The amount payable to group undertakings must be shown separately.

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*(17) Formats 1 and 3*

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The amount of any provisions for depreciation and diminution in value of tangible and intangible fixed assets falling to be shown under items 7(a) and A.4(a) respectively in formats 2 and 4 must be disclosed in a note to the accounts in any case where the profit and loss account is prepared using format 1 or format 3.

**PART 2**  
**ACCOUNTING PRINCIPLES AND RULES**  
**SECTION A**  
**ACCOUNTING PRINCIPLES**

**Preliminary**

**10.**—(1) The amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the principles set out in this Section.

(2) But if it appears to the company's directors that there are special reasons for departing from any of those principles in preparing the company's accounts in respect of any financial year they may do so, in which case particulars of the departure, the reasons for it and its effect must be given in a note to the accounts.

**Accounting principles**

**11.** The company is presumed to be carrying on business as a going concern.

**12.** Accounting policies must be applied consistently within the same accounts and from one financial year to the next.

**13.** The amount of any item must be determined on a prudent basis, and in particular—

- (a) only profits realised at the balance sheet date are to be included in the profit and loss account, and
- (b) all liabilities which have arisen in respect of the financial year to which the accounts relate or a previous financial year must be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in accordance with section 414 of the 2006 Act (approval and signing of accounts).

**14.** All income and charges relating to the financial year to which the accounts relate must be taken into account, without regard to the date of receipt or payment.

**15.** In determining the aggregate amount of any item, the amount of each individual asset or liability that falls to be taken into account must be determined separately.

**SECTION B**  
**HISTORICAL COST ACCOUNTING RULES**

**Preliminary**

**16.** Subject to Sections C and D of this Part of this Schedule, the amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the rules set out in this Section.

*Fixed assets*

**General rules**

**17.**—(1) The amount to be included in respect of any fixed asset must be its purchase price or production cost.



(2) This is subject to any provision for depreciation or diminution in value made in accordance with paragraphs 18 to 20.

### **Rules for depreciation and diminution in value**

**18.** In the case of any fixed asset which has a limited useful economic life, the amount of—

- (a) its purchase price or production cost, or
- (b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its purchase price or production cost less that estimated residual value,

must be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.

**19.—**(1) Where a fixed asset investment falling to be included under item B.III of either of the balance sheet formats set out in Part 1 of this Schedule has diminished in value, provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly.

(2) Provisions for diminution in value must be made in respect of any fixed asset which has diminished in value if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it must be reduced accordingly.

(3) Any provisions made under sub-paragraph (1) or (2) which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

**20.—**(1) Where the reasons for which any provision was made in accordance with paragraph 19 have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

(2) Any amounts written back in accordance with sub-paragraph (1) which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

### **Development costs**

**21.—**(1) Notwithstanding that an item in respect of “development costs” is included under “fixed assets” in the balance sheet formats set out in Part 1 of this Schedule, an amount may only be included in a company's balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a company's balance sheet in respect of development costs the following information must be given in a note to the accounts—

- (a) the period over which the amount of those costs originally capitalised is being or is to be written off, and
- (b) the reasons for capitalising the development costs in question.

### **Goodwill**

**22.—**(1) The application of paragraphs 17 to 20 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following.

(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a company must be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen must not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a company is shown or included as an asset in the company's balance sheet there must be disclosed in a note to the accounts—

- (a) the period chosen for writing off the consideration for that goodwill, and
- (b) the reasons for choosing that period.

### **Current assets**

**23.** Subject to paragraph 24, the amount to be included in respect of any current asset must be its purchase price or production cost.

**24.—(1)** If the net realisable value of any current asset is lower than its purchase price or production cost, the amount to be included in respect of that asset must be the net realisable value.

(2) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (1) have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

### *Miscellaneous and supplementary provisions*

#### **Excess of money owed over value received as an asset item**

**25.—(1)** Where the amount repayable on any debt owed by a company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

- (a) it must be written off by reasonable amounts each year and must be completely written off before repayment of the debt, and
- (b) if the current amount is not shown as a separate item in the company's balance sheet, it must be disclosed in a note to the accounts.

#### **Assets included at a fixed amount**

**26.—(1)** Subject to sub-paragraph (2), assets which fall to be included—

- (a) amongst the fixed assets of a company under the item "tangible assets", or
- (b) amongst the current assets of a company under the item "raw materials and consumables",

may be included at a fixed quantity and value.

(2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced where—

- (a) their overall value is not material to assessing the company's state of affairs, and
- (b) their quantity, value and composition are not subject to material variation.

#### **Determination of purchase price or production cost**

**27.—(1)** The purchase price of an asset is to be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The production cost of an asset is to be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the production of that asset.

(3) In addition, there may be included in the production cost of an asset—

- (a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the production of that asset, but only to the extent that they relate to the period of production, and
- (b) interest on capital borrowed to finance the production of that asset, to the extent that it accrues in respect of the period of production,

provided, however, in a case within paragraph (b), that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

- (4) In the case of current assets distribution costs may not be included in production costs.

**28.**—(1) The purchase price or production cost of—

- (a) any assets which fall to be included under any item shown in a company's balance sheet under the general item "stocks", and
- (b) any assets which are fungible assets (including investments),

may be determined by the application of any of the methods mentioned in sub-paragraph (2) in relation to any such assets of the same class, provided that the method chosen is one which appears to the directors to be appropriate in the circumstances of the company.

(2) Those methods are—

- (a) the method known as "first in, first out" (FIFO),
- (b) the method known as "last in, first out" (LIFO),
- (c) a weighted average price, and
- (d) any other method similar to any of the methods mentioned above.

(3) Where in the case of any company—

- (a) the purchase price or production cost of assets falling to be included under any item shown in the company's balance sheet has been determined by the application of any method permitted by this paragraph, and
- (b) the amount shown in respect of that item differs materially from the relevant alternative amount given below in this paragraph,

the amount of that difference must be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5), for the purposes of sub-paragraph (3)(b), the relevant alternative amount, in relation to any item shown in a company's balance sheet, is the amount which would have been shown in respect of that item if assets of any class included under that item at an amount determined by any method permitted by this paragraph had instead been included at their replacement cost as at the balance sheet date.

(5) The relevant alternative amount may be determined by reference to the most recent actual purchase price or production cost before the balance sheet date of assets of any class included under the item in question instead of by reference to their replacement cost as at that date, but only if the former appears to the directors of the company to constitute the more appropriate standard of comparison in the case of assets of that class.

### **Substitution of original stated amount where price or cost unknown**

**29.**—(1) This paragraph applies where—

- (a) there is no record of the purchase price or production cost of any asset of a company or of any price, expenses or costs relevant for determining its purchase price or production cost in accordance with paragraph 27, or
- (b) any such record cannot be obtained without unreasonable expense or delay.

(2) In such a case, the purchase price or production cost of the asset must be taken, for the purposes of paragraphs 17 to 24, to be the value ascribed to it in the earliest available record of its value made on or after its acquisition or production by the company.

## SECTION C

### ALTERNATIVE ACCOUNTING RULES

#### **Preliminary**

**30.**—(1) The rules set out in Section B are referred to below in this Schedule as the historical cost accounting rules.

(2) Those rules, with the omission of paragraphs 16, 22 and 26 to 29, are referred to below in this Part of this Schedule as the depreciation rules; and references below in this Schedule to the historical cost accounting rules do not include the depreciation rules as they apply by virtue of paragraph 33.

**31.** Subject to paragraphs 33 to 35, the amounts to be included in respect of assets of any description mentioned in paragraph 32 may be determined on any basis so mentioned.

#### **Alternative accounting rules**

**32.**—(1) Intangible fixed assets, other than goodwill, may be included at their current cost.

(2) Tangible fixed assets may be included at a market value determined as at the date of their last valuation or at their current cost.

(3) Investments of any description falling to be included under item B III of either of the balance sheet formats set out in Part 1 of this Schedule may be included either—

- (a) at a market value determined as at the date of their last valuation, or
- (b) at a value determined on any basis which appears to the directors to be appropriate in the circumstances of the company.

But in the latter case particulars of the method of valuation adopted and of the reasons for adopting it must be disclosed in a note to the accounts.

(4) Investments of any description falling to be included under item C III of either of the balance sheet formats set out in Part 1 of this Schedule may be included at their current cost.

(5) Stocks may be included at their current cost.

#### **Application of the depreciation rules**

**33.**—(1) Where the value of any asset of a company is determined on any basis mentioned in paragraph 32, that value must be, or (as the case may require) be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its purchase price or production cost or any value previously so determined for that asset.

The depreciation rules apply accordingly in relation to any such asset with the substitution for any reference to its purchase price or production cost of a reference to the value most recently determined for that asset on any basis mentioned in paragraph 32.

(2) The amount of any provision for depreciation required in the case of any fixed asset by paragraphs 18 to 20 as they apply by virtue of sub-paragraph (1) is referred to below in this paragraph as the adjusted amount, and the amount of any provision which would be required by any of those paragraphs in the case of that asset according to the historical cost accounting rules is referred to as the historical cost amount.

(3) Where sub-paragraph (1) applies in the case of any fixed asset the amount of any provision for depreciation in respect of that asset—

- (a) included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question, or
- (b) taken into account in stating any item so shown which is required by note (14) of the notes on the profit and loss account formats set out in Part 1 of this Schedule to be stated after taking into account any necessary provision for depreciation or diminution in value of assets included under it,

may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

### **Additional information to be provided in case of departure from historical cost accounting rules**

**34.**—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a company's accounts have been determined on any basis mentioned in paragraph 32.

(2) The 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 each balance sheet item affected (except stocks) either—

- (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,

must be shown separately in the balance sheet or in a note to the accounts.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined as there mentioned 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.

### **Revaluation reserve**

**35.**—(1) With respect to any determination of the value of an asset of a company on any basis mentioned in paragraph 32, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) must be credited or (as the case may be) debited to a separate reserve ("the revaluation reserve").

(2) The amount of the revaluation reserve must be shown in the company's balance sheet under a separate sub-heading in the position given for the item "revaluation reserve" in format 1 or 2 of the balance sheet formats set out in Part 1 of this Schedule, but need not be shown under that name.

(3) An amount may be transferred—

- (a) from the revaluation reserve—
  - (i) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or
  - (ii) on capitalisation,

- (b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve.

The revaluation reserve must be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) In sub-paragraph (3)(a)(ii) “capitalisation”, in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.

(5) The revaluation reserve must not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve must be disclosed in a note to the accounts.

## SECTION D

### FAIR VALUE ACCOUNTING

#### **Inclusion of financial instruments at fair value**

**36.**—(1) Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.

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

- (a) they are held as part of a trading portfolio,
- (b) they are derivatives, or
- (c) they are financial instruments falling within sub-paragraph (4).

(3) Unless they are financial instruments falling within sub-paragraph (4), 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, or
- (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) Financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

(5) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 37, sub-paragraph (1) does not apply to that financial instrument.

(6) In this paragraph—

“associated undertaking” has the meaning given by paragraph 19 of Schedule 6 to these Regulations;

“joint venture” has the meaning given by paragraph 18 of that Schedule.

### **Determination of fair value**

**37.**—(1) The fair value of a financial instrument is its value 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.

### **Hedged items**

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

### **Other assets that may be included at fair value**

**39.**—(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**

**40.**—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 36 or 38 or an asset is valued in accordance with paragraph 39.

(2) Notwithstanding paragraph 13 in this Part of this Schedule, 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**

**41.**—(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 40(3) or (4).

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

## **PART 3**

### **NOTES TO THE ACCOUNTS**

#### **Preliminary**

**42.** Any information required in the case of any company by the following provisions of this Part of this Schedule must (if not given in the company's accounts) be given by way of a note to the accounts.

#### *General*

#### **Reserves and dividends**

**43.** 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).

#### **Disclosure of accounting policies**

**44.** The accounting policies adopted by the company in determining the amounts to be included in respect of items shown in the balance sheet and in determining the profit or loss of the company must be stated (including such policies with respect to the depreciation and diminution in value of assets).

**45.** It must be stated whether the accounts have been prepared in accordance with applicable accounting standards and particulars of any material departure from those standards and the reasons for it must be given (see regulation 4(2) for exemption for medium-sized companies).



### *Information supplementing the balance sheet*

**46.** Paragraphs 47 to 64 require information which either supplements the information given with respect to any particular items shown in the balance sheet or is otherwise relevant to assessing the company's state of affairs in the light of the information so given.

#### **Share capital and debentures**

**47.—**(1) The following information must be given with respect to the company's share capital—

- (a) where shares of more than one class have been allotted, the number and aggregate nominal value of shares of each class allotted, and
- (b) where shares are held as treasury shares, the number and aggregate nominal value of the treasury shares and, where shares of more than one class have been allotted, the number and aggregate nominal value of the shares of each class held as treasury shares.

(2) In the case of any part of the allotted share capital that consists of redeemable shares, the following information must be given—

- (a) the earliest and latest dates on which the company has power to redeem those shares,
- (b) whether those shares must be redeemed in any event or are liable to be redeemed at the option of the company or of the shareholder, and
- (c) whether any (and, if so, what) premium is payable on redemption.

**48.** If the company has allotted any shares during the financial year, the following information must be given—

- (a) the classes of shares allotted, and
- (b) as respects each class of shares, the number allotted, their aggregate nominal value, and the consideration received by the company for the allotment.

**49.—**(1) With respect to any contingent right to the allotment of shares in the company the following particulars must be given—

- (a) the number, description and amount of the shares in relation to which the right is exercisable,
- (b) the period during which it is exercisable, and
- (c) the price to be paid for the shares allotted.

(2) In sub-paragraph (1) "contingent right to the allotment of shares" means any option to subscribe for shares and any other right to require the allotment of shares to any person whether arising on the conversion into shares of securities of any other description or otherwise.

**50.—**(1) If the company has issued any debentures during the financial year to which the accounts relate, the following information must be given—

- (a) the classes of debentures issued, and
- (b) as respects each class of debentures, the amount issued and the consideration received by the company for the issue.

(2) Where any of the company's debentures are held by a nominee of or trustee for the company, the nominal amount of the debentures and the amount at which they are stated in the accounting records kept by the company in accordance with section 386 of the 2006 Act (duty to keep accounting records) must be stated.

## **Fixed assets**

**51.**—(1) In respect of each item which is or would but for paragraph 4(2)(b) be shown under the general item “fixed assets” in the company’s balance sheet the following information must be given—

- (a) the appropriate amounts in respect of that item as at the date of the beginning of the financial year and as at the balance sheet date respectively,
- (b) the effect on any amount shown in the balance sheet in respect of that item of—
  - (i) any revision of the amount in respect of any assets included under that item made during that year on any basis mentioned in paragraph 32,
  - (ii) acquisitions during that year of any assets,
  - (iii) disposals during that year of any assets, and
  - (iv) any transfers of assets of the company to and from that item during that year.

(2) The reference in sub-paragraph (1)(a) to the appropriate amounts in respect of any item as at any date there mentioned is a reference to amounts representing the aggregate amounts determined, as at that date, in respect of assets falling to be included under that item on either of the following bases, that is to say—

- (a) on the basis of purchase price or production cost (determined in accordance with paragraphs 27 and 28), or
- (b) on any basis mentioned in paragraph 32,

(leaving out of account in either case any provisions for depreciation or diminution in value).

(3) In respect of each item within sub-paragraph (1) there must also be stated—

- (a) the cumulative amount of provisions for depreciation or diminution in value of assets included under that item as at each date mentioned in sub-paragraph (1)(a),
- (b) the amount of any such provisions made in respect of the financial year,
- (c) the amount of any adjustments made in respect of any such provisions during that year in consequence of the disposal of any assets, and
- (d) the amount of any other adjustments made in respect of any such provisions during that year.

**52.** Where any fixed assets of the company (other than listed investments) are included under any item shown in the company’s balance sheet at an amount determined on any basis mentioned in paragraph 32, the following information must be given—

- (a) the years (so far as they are known to the directors) in which the assets were severally valued and the several values, and
- (b) in the case of assets that have been valued during the financial year, the names of the persons who valued them or particulars of their qualifications for doing so and (whichever is stated) the bases of valuation used by them.

**53.** In relation to any amount which is or would but for paragraph 4(2)(b) be shown in respect of the item “land and buildings” in the company’s balance sheet there must be stated—

- (a) how much of that amount is ascribable to land of freehold tenure and how much to land of leasehold tenure, and
- (b) how much of the amount ascribable to land of leasehold tenure is ascribable to land held on long lease and how much to land held on short lease.

## Investments

**54.**—(1) In respect of the amount of each item which is or would but for paragraph 4(2)(b) be shown in the company’s balance sheet under the general item “investments” (whether as fixed assets or as current assets) there must be stated how much of that amount is ascribable to listed investments.

(2) Where the amount of any listed investments is stated for any item in accordance with subparagraph (1), the following amounts must also be stated—

- (a) the aggregate market value of those investments where it differs from the amount so stated, and
- (b) both the market value and the stock exchange value of any investments of which the former value is, for the purposes of the accounts, taken as being higher than the latter.

## Information about fair value of assets and liabilities

**55.**—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 36 or 38.

(2) There must be stated—

- (a) the significant assumptions underlying the valuation models and techniques used where the fair value of the instruments has been determined in accordance with paragraph 37(4),
- (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.

(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.

**56.** 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 37, and
- (b) the extent and nature of the derivatives.

**57.**—(1) This paragraph applies if—

- (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 36,
- (b) the amount at which those items 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 this 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.

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

**58.**—(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 39.

(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 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.

### **Reserves and provisions**

**59.**—(1) This paragraph applies where any amount is transferred—

- (a) to or from any reserves, or
- (b) to any provision for liabilities, or
- (c) from any provision for liabilities otherwise than for the purpose for which the provision was established,

and the reserves or provisions are or would but for paragraph 4(2)(b) be shown as separate items in the company's balance sheet.

(2) The following information must be given in respect of the aggregate of reserves or provisions included in the same item—

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

(3) Particulars must be given of each provision included in the item "other provisions" in the company's balance sheet in any case where the amount of that provision is material.

### **Provision for taxation**

**60.** The amount of any provision for deferred taxation must be stated separately from the amount of any provision for other taxation.

### **Details of indebtedness**

**61.**—(1) For the aggregate of all items shown under “creditors” in the company’s balance sheet there must be stated the aggregate of the following amounts—

- (a) the amount of any debts included under “creditors” which are payable or repayable otherwise than by instalments and fall due for payment or repayment after the end of the period of five years beginning with the day next following the end of the financial year, and
- (b) in the case of any debts so included which are payable or repayable by instalments, the amount of any instalments which fall due for payment after the end of that period.

(2) Subject to sub-paragraph (3), in relation to each debt falling to be taken into account under sub-paragraph (1), the terms of payment or repayment and the rate of any interest payable on the debt must be stated.

(3) If the number of debts is such that, in the opinion of the directors, compliance with sub-paragraph (2) would result in a statement of excessive length, it is sufficient to give a general indication of the terms of payment or repayment and the rates of any interest payable on the debts.

(4) In respect of each item shown under “creditors” in the company’s balance sheet there must be stated—

- (a) the aggregate amount of any debts included under that item in respect of which any security has been given by the company, and
- (b) an indication of the nature of the securities so given.

(5) References above in this paragraph to an item shown under “creditors” in the company’s balance sheet include references, where amounts falling due to creditors within one year and after more than one year are distinguished in the balance sheet—

- (a) in a case within sub-paragraph (1), to an item shown under the latter of those categories, and
- (b) in a case within sub-paragraph (4), to an item shown under either of those categories.

References to items shown under “creditors” include references to items which would but for paragraph 4(2)(b) be shown under that heading.

**62.** If any fixed cumulative dividends on the company’s shares are in arrear, there must be stated—

- (a) the amount of the arrears, and
- (b) the period for which the dividends or, if there is more than one class, each class of them are in arrear.

### **Guarantees and other financial commitments**

**63.**—(1) Particulars must be given of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.

(2) The following information must be given with respect to any other contingent liability not provided for—

- (a) the amount or estimated amount of that liability,
- (b) its legal nature, and

- (c) whether any valuable security has been provided by the company in connection with that liability and if so, what.
- (3) There must be stated, where practicable, the aggregate amount or estimated amount of contracts for capital expenditure, so far as not provided for.
- (4) Particulars must be given of—
  - (a) any pension commitments included under any provision shown in the company's balance sheet, and
  - (b) any such commitments for which no provision has been made,and where any such commitment relates wholly or partly to pensions payable to past directors of the company separate particulars must be given of that commitment so far as it relates to such pensions.
- (5) Particulars must also be given of any other financial commitments that—
  - (a) have not been provided for, and
  - (b) are relevant to assessing the company's state of affairs.

#### **Miscellaneous matters**

**64.**—(1) Particulars must be given of any case where the purchase price or production cost of any asset is for the first time determined under paragraph 29.

(2) Where any outstanding loans made under the authority of section 682(2)(b), (c) or (d) of the 2006 Act (various cases of financial assistance by a company for purchase of its own shares) are included under any item shown in the company's balance sheet, the aggregate amount of those loans must be disclosed for each item in question.

#### *Information supplementing the profit and loss account*

**65.** Paragraphs 66 to 69 require information which either supplements the information given with respect to any particular items shown in the profit and loss account or otherwise provides particulars of income or expenditure of the company or of circumstances affecting the items shown in the profit and loss account (see regulation 3(2) for exemption for companies falling within section 408 of the 2006 Act (individual profit and loss account where group accounts prepared)).

#### **Separate statement of certain items of income and expenditure**

**66.**—(1) Subject to sub-paragraph (2), there must be stated the amount of the interest on or any similar charges in respect of bank loans and overdrafts, and loans of any other kind made to the company.

(2) Sub-paragraph (1) does not apply to interest or charges on loans to the company from group undertakings, but, with that exception, it applies to interest or charges on all loans, whether made on the security of debentures or not.

#### **Particulars of tax**

**67.**—(1) Particulars must be given of any special circumstances which affect liability in respect of taxation of profits, income or capital gains for the financial year or liability in respect of taxation of profits, income or capital gains for succeeding financial years.

- (2) The following amounts must be stated—
  - (a) the amount of the charge for United Kingdom corporation tax,
  - (b) if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief,

- (c) the amount of the charge for United Kingdom income tax, and
- (d) the amount of the charge for taxation imposed outside the United Kingdom of profits, income and (so far as charged to revenue) capital gains.

These amounts must be stated separately in respect of each of the amounts which is or would but for paragraph 4(2)(b) be shown under the items “tax on profit or loss on ordinary activities” and “tax on extraordinary profit or loss” in the profit and loss account.

### **Particulars of turnover**

**68.**—(1) If in the course of the financial year the company has carried on business of two or more classes that, in the opinion of the directors, differ substantially from each other, the amount of the turnover attributable to each class must be stated and the class described (see regulation 4(3)(b) for exemption for medium-sized companies in accounts delivered to registrar).

(2) If in the course of the financial year the company has supplied markets that, in the opinion of the directors, differ substantially from each other, the amount of the turnover attributable to each such market must also be stated.

In this paragraph “market” means a market delimited by geographical bounds.

(3) In analysing for the purposes of this paragraph the source (in terms of business or in terms of market) of turnover, the directors of the company must have regard to the manner in which the company’s activities are organised.

(4) For the purposes of this paragraph—

- (a) classes of business which, in the opinion of the directors, do not differ substantially from each other must be treated as one class, and
- (b) markets which, in the opinion of the directors, do not differ substantially from each other must be treated as one market,

and any amounts properly attributable to one class of business or (as the case may be) to one market which are not material may be included in the amount stated in respect of another.

(5) Where in the opinion of the directors the disclosure of any information required by this paragraph would be seriously prejudicial to the interests of the company, that information need not be disclosed, but the fact that any such information has not been disclosed must be stated.

### **Miscellaneous matters**

**69.**—(1) Where any amount relating to any preceding financial year is included in any item in the profit and loss account, the effect must be stated.

(2) Particulars must be given of any extraordinary income or charges arising in the financial year.

(3) The effect must be stated of any transactions that are exceptional by virtue of size or incidence though they fall within the ordinary activities of the company.

### **Sums denominated in foreign currencies**

**70.** Where any sums originally denominated in foreign currencies have been brought into account under any items shown in the balance sheet format or profit and loss account formats, the basis on which those sums have been translated into sterling (or the currency in which the accounts are drawn up) must be stated.

### **Dormant companies acting as agents**

71. Where the directors of a company take advantage of the exemption conferred by section 480 of the 2006 Act (dormant companies: exemption from audit), and the company has during the financial year in question acted as an agent for any person, the fact that it has so acted must be stated.

### **Related party transactions**

72.—(1) Particulars may be given of transactions which the company has entered into with related parties, and must be given if such transactions are material and have not been concluded under normal market conditions (see regulation 4(2) for exemption for medium-sized companies).

(2) The particulars of transactions required to be disclosed by sub-paragraph (1) must include—

- (a) the amount of such transactions,
- (b) the nature of the related party relationship, and
- (c) other information about the transactions necessary for an understanding of the financial position of the company.

(3) Information about individual transactions may be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the company.

(4) Particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is a party to the transaction is wholly-owned by such a member.

(5) In this paragraph, “related party” has the same meaning as in international accounting standards.

## **PART 4**

### **SPECIAL PROVISION WHERE COMPANY IS A PARENT COMPANY OR SUBSIDIARY UNDERTAKING**

#### **Company’s own accounts: guarantees and other financial commitments in favour of group undertakings**

73. Commitments within any of sub-paragraphs (1) to (5) of paragraph 63 (guarantees and other financial commitments) which are undertaken on behalf of or for the benefit of—

- (a) any parent undertaking or fellow subsidiary undertaking, or
- (b) any subsidiary undertaking of the company,

must be stated separately from the other commitments within that paragraph, and commitments within paragraph (a) must also be stated separately from those within paragraph (b).

## **PART 5**

### **SPECIAL PROVISIONS WHERE THE COMPANY IS AN INVESTMENT COMPANY**

74.—(1) Paragraph 35 does not apply to the amount of any profit or loss arising from a determination of the value of any investments of an investment company on any basis mentioned in paragraph 32(3).



(2) Any provisions made by virtue of paragraph 19(1) or (2) in the case of an investment company in respect of any fixed asset investments need not be charged to the company's profit and loss account provided they are either—

- (a) charged against any reserve account to which any amount excluded by sub-paragraph (1) from the requirements of paragraph 35 has been credited, or
- (b) shown as a separate item in the company's balance sheet under the sub-heading "other reserves".

(3) For the purposes of this paragraph, as it applies in relation to any company, "fixed asset investment" means any asset falling to be included under any item shown in the company's balance sheet under the subdivision "investments" under the general item "fixed assets".

**75.—**(1) Any distribution made by an investment company which reduces the amount of its net assets to less than the aggregate of its called-up share capital and undistributable reserves shall be disclosed in a note to the company's accounts.

(2) For purposes of this paragraph, a company's net assets are the aggregate of its assets less the aggregate of its liabilities (including any provision for liabilities within paragraph 2 of Schedule 9 to these Regulations that is made in Companies Act accounts and any provision that is made in IAS accounts); and "undistributable reserves" has the meaning given by section 831(4) of the 2006 Act.

(3) A company shall be treated as an investment company for the purposes of this Part of this Schedule in relation to any financial year of the company if—

- (a) during the whole of that year it was an investment company as defined by section 833 of the 2006 Act, and
- (b) it was not at any time during that year prohibited from making a distribution by virtue of section 832 of the 2006 Act due to either or both of the conditions specified in section 832(5)(a) or (b) (no distribution where capital profits have been distributed etc) not being met.

## SCHEDULE 2

Regulation 5(1)

### BANKING COMPANIES: COMPANIES ACT INDIVIDUAL ACCOUNTS

#### PART 1

#### GENERAL RULES AND FORMATS

##### SECTION A

##### GENERAL RULES

**1.** Subject to the following provisions of this Part of this Schedule—

- (a) every balance sheet of a company must show the items listed in the balance sheet format set out in Section B of this Part, and
- (b) every profit and loss account must show the items listed in either of the profit and loss account formats in Section B.

**2.—**(1) References in this Part of this Schedule to the items listed in any of the formats set out in Section B, are to those items read together with any of the notes following the formats which apply to those items.

(2) The items must be shown in the order and under the headings and sub-headings given in the particular format used, but—

- (a) the notes to the formats may permit alternative positions for any particular items,
- (b) the heading or sub-heading for any item does not have to be distinguished by any letter or number assigned to that item in the format used, and
- (c) where the heading of an item in the format used contains any wording in square brackets, that wording may be omitted if not applicable to the company.

**3.—**(1) Where in accordance with paragraph 1 a company's profit and loss account for any financial year has been prepared by reference to one of the formats in Section B, the company's directors must use the same format in preparing the profit and loss account for subsequent financial years, unless in their opinion there are special reasons for a change.

(2) Particulars of any change must be given in a note to the accounts in which the new format is first used, and the reasons for the change must be explained.

**4.—**(1) Any item required to be shown in a company's balance sheet or profit and loss account may be shown in greater detail than required by the particular format used.

(2) The balance sheet or profit and loss account may include an item representing or covering the amount of any asset or liability, income or expenditure not specifically covered by any of the items listed in the format used, save that none of the following may be treated as assets in any balance sheet—

- (a) preliminary expenses,
- (b) expenses of, and commission on, any issue of shares or debentures, and
- (c) costs of research.

**5.—**(1) Items to which lower case letters are assigned in any of the formats in Section B may be combined in a company's accounts for any financial year if—

- (a) their individual amounts are not material for the purpose of giving a true and fair view, or
- (b) the combination facilitates the assessment of the state of affairs or profit or loss of the company for that year.

(2) Where sub-paragraph (1)(b) applies, the individual amounts of any items so combined must be disclosed in a note to the accounts and any notes required by this Schedule to the items so combined must, notwithstanding the combination, be given.

**6.—**(1) Subject to sub-paragraph (2), the directors must not include a heading or sub-heading corresponding to an item in the balance sheet or profit and loss account format used if there is no amount to be shown for that item for the financial year to which the balance sheet or profit and loss account relates.

(2) Where an amount can be shown for the item in question for the immediately preceding financial year, that amount must be shown under the heading or sub-heading required by the format for that item.

**7.—**(1) For every item shown in the balance sheet or profit and loss account the corresponding amount for the immediately preceding financial year must also be shown.

(2) Where that corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the balance sheet or profit and loss account relates, the former amount may be adjusted, and particulars of the non-comparability and of any adjustment must be disclosed in a note to the accounts.

**8.**—(1) Subject to the following provisions of this paragraph and without prejudice to note (6) to the balance sheet format, amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa.

(2) Charges required to be included in profit and loss account format 1, items 11(a) and 11(b) or format 2, items A7(a) and A7(b) may be set off against income required to be included in format 1, items 12(a) and 12(b) or format 2, items B5(a) and B5(b) and the resulting figure shown as a single item (in format 2 at position A7 if negative and at position B5 if positive).

(3) Charges required to be included in profit and loss account format 1, item 13 or format 2, item A8 may also be set off against income required to be included in format 1, item 14 or format 2, item B6 and the resulting figure shown as a single item (in format 2 at position A8 if negative and at position B6 if positive).

**9.**—(1) Assets must be shown under the relevant balance sheet headings even where the company has pledged them as security for its own liabilities or for those of third parties or has otherwise assigned them as security to third parties.

(2) A company may not include in its balance sheet assets pledged or otherwise assigned to it as security unless such assets are in the form of cash in the hands of the company.

(3) Assets acquired in the name of and on behalf of third parties must not be shown in the balance sheet.

**10.** The company's directors 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.

## SECTION B

### THE REQUIRED FORMATS(6)

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#### Balance sheet format

#### ASSETS

1. Cash and balances at central [or post office] banks (1)
2. Treasury bills and other eligible bills (20)
  - (a) Treasury bills and similar securities (2)
  - (b) Other eligible bills (3)
3. Loans and advances to banks (4), (20)
  - (a) Repayable on demand
  - (b) Other loans and advances
4. Loans and advances to customers (5), (20)

---

(6) A number in brackets following any item is a reference to the note of that number in the notes following the formats.

**Draft Legislation:** This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument:  
*The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 No. 410*

5. Debt securities [and other fixed-income securities] (6), (20)
  - (a) Issued by public bodies
  - (b) Issued by other issuers
6. Equity shares [and other variable-yield securities]
7. Participating interests
8. Shares in group undertakings
9. Intangible fixed assets (7)
10. Tangible fixed assets (8)
11. Called up capital not paid (9)
12. Own shares (10)
13. Other assets
14. Called up capital not paid (9)
15. Prepayments and accrued income

Total assets

#### LIABILITIES

1. Deposits by banks (11), (20)
  - (a) Repayable on demand
  - (b) With agreed maturity dates or periods of notice
2. Customer accounts (12), (20)
  - (a) Repayable on demand

- (b) With agreed maturity dates or periods of notice
  - 3. Debt securities in issue (13), (20)
    - (a) Bonds and medium term notes
    - (b) Others
  - 4. Other liabilities
  - 5. Accruals and deferred income
  - 6. Provisions for liabilities
    - (a) Provisions for pensions and similar obligations
    - (b) Provisions for tax
    - (c) Other provisions
  - 7. Subordinated liabilities (14), (20)
  - 8. Called up share capital (15)
  - 9. Share premium account
  - 10. Reserves
    - (a) Capital redemption reserve
    - (b) Reserve for own shares
    - (c) Reserves provided for by the articles of association
    - (d) Other reserves
  - 11. Revaluation reserve
  - 12. Profit and loss account
- Total liabilities

#### MEMORANDUM ITEMS

1. Contingent liabilities (16)
  - (1) Acceptances and endorsements
  - (2) Guarantees and assets pledged as collateral security (17)
  - (3) Other contingent liabilities
  
2. Commitments (18)
  - (1) Commitments arising out of sale and option to resell transactions (19)
  - (2) Other commitments

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**Notes on the balance sheet format and memorandum items**

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*(1) Cash and balances at central [or post office] banks*

---

(Assets item 1.)

Cash is to comprise all currency including foreign notes and coins.

Only those balances which may be withdrawn without notice and which are deposited with central or post office banks of the country or countries in which the company is established may be included in this item. All other claims on central or post office banks must be shown under assets items 3 or 4.

*(2) Treasury bills and other eligible bills: Treasury bills and similar securities*

---

(Assets item 2.(a).)

Treasury bills and similar securities are to comprise treasury bills and similar debt instruments issued by public bodies which are eligible for refinancing with central banks of the country or countries in which the company is established. Any treasury bills or similar debt instruments not so eligible must be included under assets item 5(a).

*(3) Treasury bills and other eligible bills: Other eligible bills*

---

(Assets item 2.(b).)

Other eligible bills are to comprise all bills purchased to the extent that they are eligible, under national law, for refinancing with the central banks of the country or countries in which the company is established.

*(4) Loans and advances to banks*

---

(Assets item 3.)

Loans and advances to banks are to comprise all loans and advances to domestic or foreign credit institutions made by the company arising out of banking transactions. However loans and advances to credit institutions represented by debt securities or other fixed-income securities must be included under assets item 5 and not this item.

*(5) Loans and advances to customers*

---

(Assets item 4.)

Loans and advances to customers are to comprise all types of assets in the form of claims on domestic and foreign customers other than credit institutions. However loans and advances represented by debt securities or other fixed-income securities must be included under assets item 5 and not this item.

---

*(6) Debt securities [and other fixed-income securities]*

---

(Assets item 5.)

This item is to comprise transferable debt securities and any other transferable fixed-income securities issued by credit institutions, other undertakings or public bodies. Debt securities and other fixed-income securities issued by public bodies are, however, only to be included in this item if they may not be shown under assets item 2.

Where a company holds its own debt securities these must not be included under this item but must be deducted from liabilities item 3.(a) or (b), as appropriate.

Securities bearing interest rates that vary in accordance with specific factors, for example the interest rate on the inter-bank market or on the Euromarket, are also to be regarded as fixed-income securities to be included under this item.

---

*(7) Intangible fixed assets*

---

(Assets item 9.)

This item is to comprise—

- (a) development costs,
- (b) concessions, patents, licences, trade marks and similar rights and assets,
- (c) goodwill, and
- (d) payments on account.

Amounts are, however, to be included in respect of (b) only if the assets were acquired for valuable consideration or the assets in question were created by the company itself.

Amounts representing goodwill are only to be included to the extent that the goodwill was acquired for valuable consideration.

The amount of any goodwill included in this item must be disclosed in a note to the accounts.

---

*(8) Tangible fixed assets*

---

(Assets item 10.)

This item is to comprise—

- (a) land and buildings,
- (b) plant and machinery,
- (c) fixtures and fittings, tools and equipment, and
- (d) payments on account and assets in the course of construction.

The amount included in this item with respect to land and buildings occupied by the company for its own activities must be disclosed in a note to the accounts.

---

*(9) Called up capital not paid*

---

**Draft Legislation:** This is a draft item of legislation. This draft has since been made as a UK Statutory Instrument:  
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(Assets items 11 and 14.)

The two positions shown for this item are alternatives.

---

*(10) Own shares*

---

(Assets item 12.)

The nominal value of the shares held must be shown separately under this item.

---

*(11) Deposits by banks*

---

(Liabilities item 1.)

Deposits by banks are to comprise all amounts arising out of banking transactions owed to other domestic or foreign credit institutions by the company. However liabilities in the form of debt securities and any liabilities for which transferable certificates have been issued must be included under liabilities item 3 and not this item.

---

*(12) Customer accounts*

---

(Liabilities item 2.)

This item is to comprise all amounts owed to creditors that are not credit institutions. However liabilities in the form of debt securities and any liabilities for which transferable certificates have been issued must be shown under liabilities item 3 and not this item.

---

*(13) Debt securities in issue*

---

(Liabilities item 3.)

This item is to include both debt securities and debts for which transferable certificates have been issued, including liabilities arising out of own acceptances and promissory notes. (Only acceptances which a company has issued for its own refinancing and in respect of which it is the first party liable are to be treated as own acceptances.)

---

*(14) Subordinated liabilities*

---

(Liabilities item 7.)

This item is to comprise all liabilities in respect of which there is a contractual obligation that, in the event of winding up or bankruptcy, they are to be repaid only after the claims of other creditors have been met.

This item must include all subordinated liabilities, whether or not a ranking has been agreed between the subordinated creditors concerned.

---

*(15) Called up share capital*

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(Liabilities item 8.)

The amount of allotted share capital and the amount of called up share capital which has been paid up must be shown separately.



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*(16) Contingent liabilities*

---

(Memorandum item 1.)

This item is to include all transactions whereby the company has underwritten the obligations of a third party.

Liabilities arising out of the endorsement of rediscounted bills must be included in this item. Acceptances other than own acceptances must also be included.

---

*(17) Contingent liabilities: Guarantees and assets pledged as collateral security*

---

(Memorandum item 1(2).)

This item is to include all guarantee obligations incurred and assets pledged as collateral security on behalf of third parties, particularly in respect of sureties and irrevocable letters of credit.

---

*(18) Commitments*

---

(Memorandum item 2.)

This item is to include every irrevocable commitment which could give rise to a credit risk.

---

*(19) Commitments: Commitments arising out of sale and option to resell transactions*

---

(Memorandum item 2(1).)

This item is to comprise commitments entered into by the company in the context of sale and option to resell transactions.

---

*(20) Claims on, and liabilities to, undertakings in which a participating interest is held or group undertakings*

---

(Assets items 2 to 5, liabilities items 1 to 3 and 7.)

The following information must be given either by way of subdivision of the relevant items or by way of notes to the accounts.

The amount of the following must be shown for each of assets items 2 to 5—

- (a) claims on group undertakings included therein, and
- (b) claims on undertakings in which the company has a participating interest included therein.

The amount of the following must be shown for each of liabilities items 1, 2, 3 and 7—

- (i) liabilities to group undertakings included therein, and
- (ii) liabilities to undertakings in which the company has a participating interest included therein.

*Special rules*

**Subordinated assets**

**11.—(1)** The amount of any assets that are subordinated must be shown either as a subdivision of any relevant asset item or in the notes to the accounts; in the latter case disclosure must be by reference to the relevant asset item or items in which the assets are included.

(2) In the case of assets items 2 to 5 in the balance sheet format, the amounts required to be shown by note (20) to the format as sub-items of those items must be further subdivided so as to show the amount of any claims included therein that are subordinated.

(3) For this purpose, assets are subordinated if there is a contractual obligation to the effect that, in the event of winding up or bankruptcy, they are to be repaid only after the claims of other creditors have been met, whether or not a ranking has been agreed between the subordinated creditors concerned.

### **Syndicated loans**

**12.**—(1) Where a company is a party to a syndicated loan transaction the company must include only that part of the total loan which it itself has funded.

(2) Where a company is a party to a syndicated loan transaction and has agreed to reimburse (in whole or in part) any other party to the syndicate any funds advanced by that party or any interest thereon upon the occurrence of any event, including the default of the borrower, any additional liability by reason of such a guarantee must be included as a contingent liability in Memorandum item 1(2).

### **Sale and repurchase transactions**

**13.**—(1) The following rules apply where a company is a party to a sale and repurchase transaction.

(2) Where the company is the transferor of the assets under the transaction—

- (a) the assets transferred must, notwithstanding the transfer, be included in its balance sheet,
- (b) the purchase price received by it must be included in its balance sheet as an amount owed to the transferee, and
- (c) the value of the assets transferred must be disclosed in a note to its accounts.

(3) Where the company is the transferee of the assets under the transaction, it must not include the assets transferred in its balance sheet but the purchase price paid by it to the transferor must be so included as an amount owed by the transferor.

### **Sale and option to resell transactions**

**14.**—(1) The following rules apply where a company is a party to a sale and option to resell transaction.

(2) Where the company is the transferor of the assets under the transaction, it must not include in its balance sheet the assets transferred but it must enter under Memorandum item 2 an amount equal to the price agreed in the event of repurchase.

(3) Where the company is the transferee of the assets under the transaction it must include those assets in its balance sheet.

### **Managed funds**

**15.**—(1) For the purposes of this paragraph, “managed funds” are funds which the company administers in its own name but on behalf of others and to which it has legal title.

(2) The company must, in any case where claims and obligations arising in respect of managed funds fall to be treated as claims and obligations of the company, adopt the following accounting treatment.

(3) Claims and obligations representing managed funds are to be included in the company’s balance sheet, with the notes to the accounts disclosing the total amount included with respect to

such assets and liabilities in the balance sheet and showing the amount included under each relevant balance sheet item in respect of such assets or (as the case may be) liabilities.

---

### **Profit and loss account formats**

#### *Format 1*

#### Vertical layout

1. Interest receivable (1)
  - (1) Interest receivable and similar income arising from debt securities [and other fixed-income securities]
  - (2) Other interest receivable and similar income
2. Interest payable (2)
3. Dividend income
  - (a) Income from equity shares [and other variable-yield securities]
  - (b) Income from participating interests
  - (c) Income from shares in group undertakings
4. Fees and commissions receivable (3)
5. Fees and commissions payable (4)
6. Dealing [profits] [losses] (5)
7. Other operating income
8. Administrative expenses
  - (a) Staff costs
    - (i) Wages and salaries
    - (ii) Social security costs
    - (iii) Other pension costs
  - (b) Other administrative expenses
9. Depreciation and amortisation (6)

10. Other operating charges
11. Provisions
  - (a) Provisions for bad and doubtful debts (7)
  - (b) Provisions for contingent liabilities and commitments (8)
12. Adjustments to provisions
  - (a) Adjustments to provisions for bad and doubtful debts (9)
  - (b) Adjustments to provisions for contingent liabilities and commitments (10)
13. Amounts written off fixed asset investments (11)
14. Adjustments to amounts written off fixed asset investments (12)
15. [Profit] [loss] on ordinary activities before tax
16. Tax on [profit] [loss] on ordinary activities
17. [Profit] [loss] on ordinary activities after tax
18. Extraordinary income
19. Extraordinary charges
20. Extraordinary [profit] [loss]
21. Tax on extraordinary [profit] [loss]
22. Extraordinary [profit] [loss] after tax
23. Other taxes not shown under the preceding items
24. [Profit] [loss] for the financial year

*Format 2*

Horizontal layout

A. Charges

1. Interest payable (2)
2. Fees and commissions payable (4)
3. Dealing losses (5)
4. Administrative expenses
  - (a) Staff costs
    - (i) Wages and salaries
    - (ii) Social security costs
    - (iii) Other pension costs
  - (b) Other administrative expenses
5. Depreciation and amortisation (6)
6. Other operating charges
7. Provisions
  - (a) Provisions for bad and doubtful debts (7)
  - (b) Provisions for contingent liabilities and commitments (8)
8. Amounts written off fixed asset investments (11)
9. Profit on ordinary activities before tax
10. Tax on [profit] [loss] on ordinary activities
11. Profit on ordinary activities after tax

12. Extraordinary charges
13. Tax on extraordinary [profit] [loss]
14. Extraordinary loss after tax
15. Other taxes not shown under the preceding items
16. Profit for the financial year

B. Income

1. Interest receivable (1)
  - (1) Interest receivable and similar income arising from debt securities [and other fixed-income securities]
  - (2) Other interest receivable and similar income
2. Dividend income
  - (a) Income from equity shares [and other variable-yield securities]
  - (b) Income from participating interests
  - (c) Income from shares in group undertakings
3. Fees and commissions receivable (3)
4. Dealing profits (5)
5. Adjustments to provisions
  - (a) Adjustments to provisions for bad and doubtful debts (9)
  - (b) Adjustments to provisions for contingent liabilities and commitments (10)
6. Adjustments to amounts written off fixed asset investments (12)
7. Other operating income

8. Loss on ordinary activities before tax
9. Loss on ordinary activities after tax
10. Extraordinary income
11. Extraordinary profit after tax
12. Loss for the financial year

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**Notes on the profit and loss account formats**

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*(1) Interest receivable*

---

(Format 1, item 1; format 2, item B1.)

This item is to include all income arising out of banking activities, including—

- (a) income from assets included in assets items 1 to 5 in the balance sheet format, however calculated,
- (b) income resulting from covered forward contracts spread over the actual duration of the contract and similar in nature to interest, and
- (c) fees and commissions receivable similar in nature to interest and calculated on a time basis or by reference to the amount of the claim (but not other fees and commissions receivable).

---

*(2) Interest payable*

---

(Format 1, item 2; format 2, item A1.)

This item is to include all expenditure arising out of banking activities, including—

- (a) charges arising out of liabilities included in liabilities items 1, 2, 3 and 7 in the balance sheet format, however calculated,
- (b) charges resulting from covered forward contracts, spread over the actual duration of the contract and similar in nature to interest, and
- (c) fees and commissions payable similar in nature to interest and calculated on a time basis or by reference to the amount of the liability (but not other fees and commissions payable).

---

*(3) Fees and commissions receivable*

---

(Format 1, item 4; format 2, item B3.)

Fees and commissions receivable are to comprise income in respect of all services supplied by the company to third parties, but not fees or commissions required to be included under interest receivable (format 1, item 1; format 2, item B1).

In particular the following fees and commissions receivable must be included (unless required to be included under interest receivable)—

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- (a) fees and commissions for guarantees, loan administration on behalf of other lenders and securities transactions,
- (b) fees, commissions and other income in respect of payment transactions, account administration charges and commissions for the safe custody and administration of securities,
- (c) fees and commissions for foreign currency transactions and for the sale and purchase of coin and precious metals, and
- (d) fees and commissions charged for brokerage services in connection with savings and insurance contracts and loans.

---

*(4) Fees and commissions payable*

---

(Format 1, item 5; format 2, item A2.)

Fees and commissions payable are to comprise charges for all services rendered to the company by third parties but not fees or commissions required to be included under interest payable (format 1, item 2; format 2, item A1).

In particular the following fees and commissions payable must be included (unless required to be included under interest payable)—

- (a) fees and commissions for guarantees, loan administration and securities transactions;
- (b) fees, commissions and other charges in respect of payment transactions, account administration charges and commissions for the safe custody and administration of securities;
- (c) fees and commissions for foreign currency transactions and for the sale and purchase of coin and precious metals; and
- (d) fees and commissions for brokerage services in connection with savings and insurance contracts and loans.

---

*(5) Dealing [profits] [losses]*

---

(Format 1, item 6; format 2, items B4 and A3.)

This item is to comprise—

- (a) the net profit or net loss on transactions in securities which are not held as financial fixed assets together with amounts written off or written back with respect to such securities, including amounts written off or written back as a result of the application of paragraph 33(1),
- (b) the net profit or loss on exchange activities, save in so far as the profit or loss is included in interest receivable or interest payable (format 1, items 1 or 2; format 2, items B1 or A1), and
- (c) the net profits and losses on other dealing operations involving financial instruments, including precious metals.

---

*(6) Depreciation and amortisation*

---

(Format 1, item 9; format 2, item A5.)

This item is to comprise depreciation and other amounts written off in respect of balance sheet assets items 9 and 10.



---

*(7) Provisions: Provisions for bad and doubtful debts*

---

(Format 1, item 11(a); format 2, item A7(a).)

Provisions for bad and doubtful debts are to comprise charges for amounts written off and for provisions made in respect of loans and advances shown under balance sheet assets items 3 and 4.

---

*(8) Provisions: Provisions for contingent liabilities and commitments*

---

(Format 1, item 11(b); format 2, item A7(b).)

This item is to comprise charges for provisions for contingent liabilities and commitments of a type which would, if not provided for, be shown under Memorandum items 1 and 2.

---

*(9) Adjustments to provisions: Adjustments to provisions for bad and doubtful debts*

---

(Format 1, item 12(a); format 2, item B5(a).)

This item is to include credits from the recovery of loans that have been written off, from other advances written back following earlier write offs and from the reduction of provisions previously made with respect to loans and advances.

---

*(10) Adjustments to provisions: Adjustments to provisions for contingent liabilities and commitments*

---

(Format 1, item 12(b); format 2, item B5(b).)

This item comprises credits from the reduction of provisions previously made with respect to contingent liabilities and commitments.

---

*(11) Amounts written off fixed asset investments*

---

(Format 1, item 13; format 2, item A8.)

Amounts written off fixed asset investments are to comprise amounts written off in respect of assets which are transferable securities held as financial fixed assets, participating interests and shares in group undertakings and which are included in assets items 5 to 8 in the balance sheet format.

---

*(12) Adjustments to amounts written off fixed asset investments*

---

(Format 1, item 14; format 2, item B6.)

Adjustments to amounts written off fixed asset investments are to include amounts written back following earlier write offs and provisions in respect of assets which are transferable securities held as financial fixed assets, participating interests and group undertakings and which are included in assets items 5 to 8 in the balance sheet format.

**PART 2**  
**ACCOUNTING PRINCIPLES AND RULES**  
**SECTION A**  
**ACCOUNTING PRINCIPLES**

**Preliminary**

**16.**—(1) The amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the principles set out in this Section.

(2) But if it appears to the company's directors that there are special reasons for departing from any of those principles in preparing the company's accounts in respect of any financial year they may do so, in which case particulars of the departure, the reasons for it and its effect must be given in a note to the accounts.

**Accounting principles**

**17.** The company is presumed to be carrying on business as a going concern.

**18.** Accounting policies must be applied consistently within the same accounts and from one financial year to the next.

**19.** The amount of any item must be determined on a prudent basis, and in particular—

- (a) only profits realised at the balance sheet date are to be included in the profit and loss account, and
- (b) all liabilities which have arisen in respect of the financial year to which the accounts relate or a previous financial year must be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in accordance with section 414 of the 2006 Act (approval and signing of accounts).

**20.** All income and charges relating to the financial year to which the accounts relate must be taken into account, without regard to the date of receipt or payment.

**21.** In determining the aggregate amount of any item, the amount of each individual asset or liability that falls to be taken into account must be determined separately.

**SECTION B**  
**HISTORICAL COST ACCOUNTING RULES**

**Preliminary**

**22.** Subject to Sections C and D of this Part of this Schedule, the amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the rules set out in this Section.

*Fixed assets*

**General rules**

**23.**—(1) The amount to be included in respect of any fixed asset is its cost.

(2) This is subject to any provision for depreciation or diminution in value made in accordance with paragraphs 24 to 26.

### **Rules for depreciation and diminution in value**

**24.** In the case of any fixed asset which has a limited useful economic life, the amount of—

- (a) its cost, or
- (b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its cost less that estimated residual value,

must be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.

**25.—**(1) Where a fixed asset investment to which sub-paragraph (2) applies has diminished in value, provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly.

(2) This sub-paragraph applies to fixed asset investments of a description falling to be included under assets item 7 (participating interests) or 8 (shares in group undertakings) in the balance sheet format, or any other holding of securities held as a financial fixed asset.

(3) Provisions for diminution in value must be made in respect of any fixed asset which has diminished in value if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it must be reduced accordingly.

(4) Any provisions made under this paragraph which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

**26.—**(1) Where the reasons for which any provision was made in accordance with paragraph 25 have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

(2) Any amounts written back in accordance with sub-paragraph (1) which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

### **Development costs**

**27.—**(1) Notwithstanding that amounts representing “development costs” may be included under assets item 9 in the balance sheet format, an amount may only be included in a company's balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a company's balance sheet in respect of development costs the following information must be given in a note to the accounts—

- (a) the period over which the amount of those costs originally capitalised is being or is to be written off, and
- (b) the reasons for capitalising the development costs in question.

### **Goodwill**

**28.—**(1) The application of paragraphs 23 to 26 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following.

(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a company must be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen must not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a company is included as an asset in the company's balance sheet there must be disclosed in a note to the accounts—

- (a) the period chosen for writing off the consideration for that goodwill, and
- (b) the reasons for choosing that period.

### **Treatment of fixed assets**

**29.**—(1) Assets included in assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format must be valued as fixed assets.

(2) Other assets falling to be included in the balance sheet must be valued as fixed assets where they are intended for use on a continuing basis in the company's activities.

### **Financial fixed assets**

**30.**—(1) Debt securities, including fixed-income securities, held as financial fixed assets must be included in the balance sheet at an amount equal to their maturity value plus any premium, or less any discount, on their purchase, subject to the following provisions of this paragraph.

(2) The amount included in the balance sheet with respect to such securities purchased at a premium must be reduced each financial year on a systematic basis so as to write the premium off over the period to the maturity date of the security and the amounts so written off must be charged to the profit and loss account for the relevant financial years.

(3) The amount included in the balance sheet with respect to such securities purchased at a discount must be increased each financial year on a systematic basis so as to extinguish the discount over the period to the maturity date of the security and the amounts by which the amount is increased must be credited to the profit and loss account for the relevant years.

(4) The notes to the accounts must disclose the amount of any unamortized premium or discount not extinguished which is included in the balance sheet by virtue of sub-paragraph (1).

(5) For the purposes of this paragraph “premium” means any excess of the amount paid for a security over its maturity value and “discount” means any deficit of the amount paid for a security over its maturity value.

### **Current assets**

**31.** The amount to be included in respect of loans and advances, debt or other fixed-income securities and equity shares or other variable yield securities not held as financial fixed assets must be their cost, subject to paragraphs 32 and 33.

**32.**—(1) If the net realisable value of any asset referred to in paragraph 31 is lower than its cost, the amount to be included in respect of that asset is the net realisable value.

(2) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (1) have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

**33.**—(1) Subject to paragraph 32, the amount to be included in the balance sheet in respect of transferable securities not held as financial fixed assets may be the higher of their cost or their market value at the balance sheet date.

(2) The difference between the cost of any securities included in the balance sheet at a valuation under sub-paragraph (1) and their market value must be shown (in aggregate) in the notes to the accounts.

### *Miscellaneous and supplementary provisions*

#### **Excess of money owed over value received as an asset item**

**34.**—(1) Where the amount repayable on any debt owed by a company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

- (a) it must be written off by reasonable amounts each year and must be completely written off before repayment of the debt, and
- (b) if the current amount is not shown as a separate item in the company's balance sheet, it must be disclosed in a note to the accounts.

#### **Determination of cost**

**35.**—(1) The cost of an asset that has been acquired by the company is to be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The cost of an asset constructed by the company is to be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the construction of that asset.

(3) In addition, there may be included in the cost of an asset constructed by the company—

- (a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the construction of that asset, but only to the extent that they relate to the period of construction, and
- (b) interest on capital borrowed to finance the construction of that asset, to the extent that it accrues in respect of the period of construction,

provided, however, in a case within paragraph (b), that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

**36.**—(1) The cost of any assets which are fungible assets (including investments), may be determined by the application of any of the methods mentioned in sub-paragraph (2) in relation to any such assets of the same class, provided that the method chosen is one which appears to the directors to be appropriate in the circumstances of the company.

(2) Those methods are—

- (a) the method known as “first in, first out” (FIFO),
- (b) the method known as “last in, first out” (LIFO),
- (c) a weighted average price, and
- (d) any other method similar to any of the methods mentioned above.

(3) Where in the case of any company—

- (a) the cost of assets falling to be included under any item shown in the company's balance sheet has been determined by the application of any method permitted by this paragraph, and
- (b) the amount shown in respect of that item differs materially from the relevant alternative amount given below in this paragraph,

the amount of that difference must be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5), for the purposes of sub-paragraph (3)(b), the relevant alternative amount, in relation to any item shown in a company's balance sheet, is the amount which would

have been shown in respect of that item if assets of any class included under that item at an amount determined by any method permitted by this paragraph had instead been included at their replacement cost as at the balance sheet date.

(5) The relevant alternative amount may be determined by reference to the most recent actual purchase price before the balance sheet date of assets of any class included under the item in question instead of by reference to their replacement cost as at that date, but only if the former appears to the directors of the company to constitute the more appropriate standard of comparison in the case of assets of that class.

### **Substitution of original stated amount where price or cost unknown**

**37.**—(1) This paragraph applies where—

- (a) there is no record of the purchase price of any asset acquired by a company or of any price, expenses or costs relevant for determining its cost in accordance with paragraph 35, or
- (b) any such record cannot be obtained without unreasonable expense or delay.

(2) In such a case, its cost is to be taken, for the purposes of paragraphs 23 to 33, to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the company.

## SECTION C

### ALTERNATIVE ACCOUNTING RULES

#### **Preliminary**

**38.**—(1) The rules set out in Section B are referred to below in this Schedule as the historical cost accounting rules.

(2) Paragraphs 23 to 26 and 30 to 34 are referred to below in this Section as the depreciation rules; and references below in this Schedule to the historical cost accounting rules do not include the depreciation rules as they apply by virtue of paragraph 41.

**39.** Subject to paragraphs 41 to 43, the amounts to be included in respect of assets of any description mentioned in paragraph 40 may be determined on any basis so mentioned.

#### **Alternative accounting rules**

**40.**—(1) Intangible fixed assets, other than goodwill, may be included at their current cost.

(2) Tangible fixed assets may be included at a market value determined as at the date of their last valuation or at their current cost.

(3) Investments of any description falling to be included under assets items 7 (participating interests) or 8 (shares in group undertakings) of the balance sheet format and any other securities held as financial fixed assets may be included either—

- (a) at a market value determined as at the date of their last valuation, or
- (b) at a value determined on any basis which appears to the directors to be appropriate in the circumstances of the company.

But in the latter case particulars of the method of valuation adopted and of the reasons for adopting it must be disclosed in a note to the accounts.

(4) Securities of any description not held as financial fixed assets (if not valued in accordance with paragraph 33) may be included at their current cost.

### **Application of the depreciation rules**

**41.**—(1) Where the value of any asset of a company is determined in accordance with paragraph 40, that value must be, or (as the case may require) be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its cost or any value previously so determined for that asset.

The depreciation rules apply accordingly in relation to any such asset with the substitution for any reference to its cost of a reference to the value most recently determined for that asset in accordance with paragraph 40.

(2) The amount of any provision for depreciation required in the case of any fixed asset by paragraphs 24 to 26 as they apply by virtue of sub-paragraph (1) is referred to below in this paragraph as the adjusted amount, and the amount of any provision which would be required by any of those paragraphs in the case of that asset according to the historical cost accounting rules is referred to as the historical cost amount.

(3) Where sub-paragraph (1) applies in the case of any fixed asset the amount of any provision for depreciation in respect of that asset included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

### **Additional information to be provided in case of departure from historical cost accounting rules**

**42.**—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a company's accounts have been determined in accordance with paragraph 40.

(2) The 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 each balance sheet item affected either—

- (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,

must be shown separately in the balance sheet or in a note to the accounts.

(4) In sub-paragraph (3), references in relation to any item to the comparable amounts determined as there mentioned 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.

### **Revaluation reserve**

**43.**—(1) With respect to any determination of the value of an asset of a company in accordance with paragraph 40, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) must be credited or (as the case may be) debited to a separate reserve ("the revaluation reserve").

(2) The amount of the revaluation reserve must be shown in the company's balance sheet under liabilities item 11 in the balance sheet format, but need not be shown under that name.

(3) An amount may be transferred—

(a) from the revaluation reserve—

(i) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or

(ii) on capitalisation,

(b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve.

The revaluation reserve must be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) In sub-paragraph (3)(a)(ii) “capitalisation”, in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.

(5) The revaluation reserve must not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve must be disclosed in a note to the accounts.

## SECTION D

### FAIR VALUE ACCOUNTING

#### **Inclusion of financial instruments at fair value**

**44.**—(1) Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.

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

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

(b) they are derivatives, or

(c) they are financial instruments falling within sub-paragraph (4).

(3) Unless they are financial instruments falling within sub-paragraph (4), 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, or

(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) Financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

(5) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 45, sub-paragraph (1) does not apply to that financial instrument.



(6) In this paragraph—

“associated undertaking” has the meaning given by paragraph 19 of Schedule 6 to these Regulations;

“joint venture” has the meaning given by paragraph 18 of that Schedule.

### **Determination of fair value**

**45.**—(1) The fair value of a financial instrument is its value 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.

### **Hedged items**

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

### **Other assets that may be included at fair value**

**47.**—(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**

**48.**—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 44 or 46 or an asset is valued in accordance with paragraph 47.

(2) Notwithstanding paragraph 19 in this Part of this Schedule, 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**

**49.**—(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 48(3) or (4).

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

### **Assets and liabilities denominated in foreign currencies**

**50.**—(1) Subject to the following sub-paragraphs, amounts to be included in respect of assets and liabilities denominated in foreign currencies must be in sterling (or the currency in which the accounts are drawn up) after translation at an appropriate spot rate of exchange prevailing at the balance sheet date.

(2) An appropriate rate of exchange prevailing on the date of purchase may however be used for assets held as financial fixed assets and assets to be included under assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format, if they are not covered or not specifically covered in either the spot or forward currency markets.

(3) An appropriate spot rate of exchange prevailing at the balance sheet date must be used for translating uncompleted spot exchange transactions.

(4) An appropriate forward rate of exchange prevailing at the balance sheet date must be used for translating uncompleted forward exchange transactions.

(5) This paragraph does not apply to any assets or liabilities held, or any transactions entered into, for hedging purposes or to any assets or liabilities which are themselves hedged.

**51.**—(1) Subject to sub-paragraph (2), any difference between the amount to be included in respect of an asset or liability under paragraph 50 and the book value, after translation into sterling (or the currency in which the accounts are drawn up) at an appropriate rate, of that asset or liability must be credited or, as the case may be, debited to the profit and loss account.

(2) In the case, however, of assets held as financial fixed assets, of assets to be included under assets items 9 (intangible fixed assets) and 10 (tangible fixed assets) in the balance sheet format and of transactions undertaken to cover such assets, any such difference may be deducted from or credited to any non-distributable reserve available for the purpose.

## PART 3

### NOTES TO THE ACCOUNTS

#### **Preliminary**

**52.** Any information required in the case of any company by the following provisions of this Part of this Schedule must (if not given in the company's accounts) be given by way of a note to the accounts.

#### *General*

#### **Disclosure of accounting policies**

**53.** The accounting policies adopted by the company in determining the amounts to be included in respect of items shown in the balance sheet and in determining the profit or loss of the company must be stated (including such policies with respect to the depreciation and diminution in value of assets).

**54.** It must be stated whether the accounts have been prepared in accordance with applicable accounting standards and particulars of any material departure from those standards and the reasons for it must be given.

#### **Sums denominated in foreign currencies**

**55.** Where any sums originally denominated in foreign currencies have been brought into account under any items shown in the balance sheet format or profit and loss account formats, the basis on which those sums have been translated into sterling (or the currency in which the accounts are drawn up) must be stated.

#### **Reserves and dividends**

**56.** 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).

#### *Information supplementing the balance sheet*

**57.** Paragraphs 58 to 84 require information which either supplements the information given with respect to any particular items shown in the balance sheet or is otherwise relevant to assessing the company's state of affairs in the light of the information so given.

#### **Share capital and debentures**

**58.—(1)** Where shares of more than one class have been allotted, the number and aggregate nominal value of shares of each class allotted must be given.

(2) In the case of any part of the allotted share capital that consists of redeemable shares, the following information must be given—

- (a) the earliest and latest dates on which the company has power to redeem those shares,
- (b) whether those shares must be redeemed in any event or are liable to be redeemed at the option of the company or of the shareholder, and
- (c) whether any (and, if so, what) premium is payable on redemption.

**59.** If the company has allotted any shares during the financial year, the following information must be given—

- (a) the classes of shares allotted, and
- (b) as respects each class of shares, the number allotted, their aggregate nominal value and the consideration received by the company for the allotment.

**60.**—(1) With respect to any contingent right to the allotment of shares in the company the following particulars must be given—

- (a) the number, description and amount of the shares in relation to which the right is exercisable,
- (b) the period during which it is exercisable, and
- (c) the price to be paid for the shares allotted.

(2) In sub-paragraph (1) “contingent right to the allotment of shares” means any option to subscribe for shares and any other right to require the allotment of shares to any person whether arising on the conversion into shares of securities of any other description or otherwise.

**61.**—(1) If the company has issued any debentures during the financial year to which the accounts relate, the following information must be given—

- (a) the classes of debentures issued, and
- (b) as respects each class of debentures, the amount issued and the consideration received by the company for the issue.

(2) Where any of the company’s debentures are held by a nominee of or trustee for the company, the nominal amount of the debentures and the amount at which they are stated in the accounting records kept by the company in accordance with section 386 of the 2006 Act (duty to keep accounting records) must be stated.

### **Fixed assets**

**62.**—(1) In respect of any fixed assets of the company included in any assets item in the company’s balance sheet the following information must be given by reference to each such item—

- (a) the appropriate amounts in respect of those assets included in the item as at the date of the beginning of the financial year and as at the balance sheet date respectively,
- (b) the effect on any amount shown included in the item in respect of those assets of—
  - (i) any determination during that year of the value to be ascribed to any of those assets in accordance with paragraph 40,
  - (ii) acquisitions during that year of any fixed assets,
  - (iii) disposals during that year of any fixed assets, and
  - (iv) any transfers of fixed assets of the company to and from that item during that year.

(2) The reference in sub-paragraph (1)(a) to the appropriate amounts in respect of any fixed assets (included in an assets item) as at any date there mentioned is a reference to amounts representing

the aggregate amounts determined, as at that date, in respect of fixed assets falling to be included under the item on either of the following bases—

- (a) on the basis of cost (determined in accordance with paragraphs 35 and 36), or
- (b) on any basis permitted by paragraph 40,

(leaving out of account in either case any provisions for depreciation or diminution in value).

(3) In addition, in respect of any fixed assets of the company included in any assets item in the company's balance sheet, there must be stated (by reference to each such item)—

- (a) the cumulative amount of provisions for depreciation or diminution in value of those assets included under that item as at each date mentioned in sub-paragraph (1)(a),
- (b) the amount of any such provisions made in respect of the financial year,
- (c) the amount of any adjustments made in respect of any such provisions during that year in consequence of the disposal of any of those assets, and
- (d) the amount of any other adjustments made in respect of any such provisions during that year.

(4) The requirements of this paragraph need not be complied with to the extent that a company takes advantage of the option of setting off charges and income afforded by paragraph 8(3) in Part 1 of this Schedule.

**63.** Where any fixed assets of the company (other than listed investments) are included under any item shown in the company's balance sheet at an amount determined in accordance with paragraph 40, the following information must be given—

- (a) the years (so far as they are known to the directors) in which the assets were severally valued and the several values, and
- (b) in the case of assets that have been valued during the financial year, the names of the persons who valued them or particulars of their qualifications for doing so and (whichever is stated) the bases of valuation used by them.

**64.** In relation to any amount which is included under assets item 10 in the balance sheet format (tangible fixed assets) with respect to land and buildings there must be stated—

- (a) how much of that amount is ascribable to land of freehold tenure and how much to land of leasehold tenure, and
- (b) how much of the amount ascribable to land of leasehold tenure is ascribable to land held on long lease and how much to land held on short lease.

**65.** There must be disclosed separately the amount of—

- (a) any participating interests, and
- (b) any shares in group undertakings that are held in credit institutions.

### **Information about fair value of assets and liabilities**

**66.**—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 44 or 46.

(2) There must be stated—

- (a) the significant assumptions underlying the valuation models and techniques used where the fair value of the instruments has been determined in accordance with paragraph 45(4),
- (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.
- (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.
- 67.** 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 45, and
  - (b) the extent and nature of the derivatives.
- 68.**—(1) This paragraph applies if—
  - (a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 44,
  - (b) the amount at which those items 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 25(1) in Part 2 of this 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.

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

- 69.**—(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 47.
- (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 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.

### **Reserves and provisions**

**70.**—(1) This paragraph applies where any amount is transferred—

- (a) to or from any reserves, or
- (b) to any provision for liabilities, or
- (c) from any provision for liabilities otherwise than for the purpose for which the provision was established,

and the reserves or provisions are or would but for paragraph 5(1) in Part 1 of this Schedule be shown as separate items in the company's balance sheet.

(2) The following information must be given in respect of the aggregate of reserves or provisions included in the same item—

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

(3) Particulars must be given of each provision included in liabilities item 6.(c) (other provisions) in the company's balance sheet in any case where the amount of that provision is material.

### **Provision for taxation**

**71.** The amount of any provision for deferred taxation must be stated separately from the amount of any provision for other taxation.

### **Maturity analysis**

**72.**—(1) A company must disclose separately for each of assets items 3.(b) and 4 and liabilities items 1.(b), 2.(b) and 3.(b) the aggregate amount of the loans and advances and liabilities included in those items broken down into the following categories—

- (a) those repayable in not more than three months,
- (b) those repayable in more than three months but not more than one year,
- (c) those repayable in more than one year but not more than five years,
- (d) those repayable in more than five years,

from the balance sheet date.

(2) A company must also disclose the aggregate amounts of all loans and advances falling within assets item 4 (loans and advances to customers) which are—

- (a) repayable on demand, or
- (b) are for an indeterminate period, being repayable upon short notice.

(3) For the purposes of sub-paragraph (1), where a loan or advance or liability is repayable by instalments, each such instalment is to be treated as a separate loan or advance or liability.

### **Debt and other fixed-income securities**

**73.** A company must disclose the amount of debt and fixed-income securities included in assets item 5 (debt securities [and other fixed-income securities]) and the amount of such securities included in liabilities item 3.(a) (bonds and medium term notes) that (in each case) will become due within one year of the balance sheet date.

### **Subordinated liabilities**

**74.**—(1) The following information must be disclosed in relation to any borrowing included in liabilities item 7 (subordinated liabilities) that exceeds 10 % of the total for that item—

- (a) its amount,
- (b) the currency in which it is denominated,
- (c) the rate of interest and the maturity date (or the fact that it is perpetual),
- (d) the circumstances in which early repayment may be demanded,
- (e) the terms of the subordination, and
- (f) the existence of any provisions whereby it may be converted into capital or some other form of liability and the terms of any such provisions.

(2) The general terms of any other borrowings included in liabilities item 7 must also be stated.

### **Fixed cumulative dividends**

**75.** If any fixed cumulative dividends on the company's shares are in arrear, there must be stated—

- (a) the amount of the arrears, and
- (b) the period for which the dividends or, if there is more than one class, each class of them are in arrear.

### **Details of assets charged**

**76.**—(1) There must be disclosed, in relation to each liabilities and memorandum item of the balance sheet format—

- (a) the aggregate amount of any assets of the company which have been charged to secure any liability or potential liability included under that item,
- (b) the aggregate amount of the liabilities or potential liabilities so secured, and
- (c) an indication of the nature of the security given.

(2) Particulars must also be given of any other charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.

### **Guarantees and other financial commitments**

**77.**—(1) There must be stated, where practicable, the aggregate amount or estimated amount of contracts for capital expenditure, so far as not provided for.

(2) Particulars must be given of—

- (a) any pension commitments included under any provision shown in the company's balance sheet, and



(b) any such commitments for which no provision has been made,  
and where any such commitment relates wholly or partly to pensions payable to past directors of the company separate particulars must be given of that commitment so far as it relates to such pensions.

(3) Particulars must also be given of any other financial commitments, including any contingent liabilities, that—

- (a) have not been provided for,
- (b) have not been included in the memorandum items in the balance sheet format, and
- (c) are relevant to assessing the company's state of affairs.

(4) Commitments within any of the preceding sub-paragraphs undertaken on behalf of or for the benefit of—

- (a) any parent company or fellow subsidiary undertaking of the company, or
- (b) any subsidiary undertaking of the company,

must be stated separately from the other commitments within that sub-paragraph (and commitments within paragraph (a) must be stated separately from those within paragraph (b)).

(5) There must be disclosed the nature and amount of any contingent liabilities and commitments included in Memorandum items 1 and 2 which are material in relation to the company's activities.

#### **Memorandum items: Group undertakings**

**78.**—(1) With respect to contingent liabilities required to be included under Memorandum item 1 in the balance sheet format, there must be stated in a note to the accounts the amount of such contingent liabilities incurred on behalf of or for the benefit of—

- (a) any parent undertaking or fellow subsidiary undertaking, or
- (b) any subsidiary undertaking,

of the company; in addition the amount incurred in respect of the undertakings referred to in paragraph (a) must be stated separately from the amount incurred in respect of the undertakings referred to in paragraph (b).

(2) With respect to commitments required to be included under Memorandum item 2 in the balance sheet format, there must be stated in a note to the accounts the amount of such commitments undertaken on behalf of or for the benefit of—

- (a) any parent undertaking or fellow subsidiary undertaking, or
- (b) any subsidiary undertaking,

of the company; in addition the amount incurred in respect of the undertakings referred to in paragraph (a) must be stated separately from the amount incurred in respect of the undertakings referred to in paragraph (b).

#### **Transferable securities**

**79.**—(1) There must be disclosed for each of assets items 5 to 8 in the balance sheet format the amount of transferable securities included under those items that are listed and the amount of those that are unlisted.

(2) In the case of each amount shown in respect of listed securities under sub-paragraph (1), there must also be disclosed the aggregate market value of those securities, if different from the amount shown.

(3) There must also be disclosed for each of assets items 5 and 6 the amount of transferable securities included under those items that are held as financial fixed assets and the amount of those

that are not so held, together with the criterion used by the directors to distinguish those held as financial fixed assets.

### **Leasing transactions**

**80.** The aggregate amount of all property (other than land) leased by the company to other persons must be disclosed, broken down so as to show the aggregate amount included in each relevant balance sheet item.

### **Assets and liabilities denominated in a currency other than sterling (or the currency in which the accounts are drawn up)**

**81.**—(1) The aggregate amount, in sterling (or the currency in which the accounts are drawn up), of all assets denominated in a currency other than sterling (or the currency used) together with the aggregate amount, in sterling (or the currency used), of all liabilities so denominated, is to be disclosed.

(2) For the purposes of this paragraph an appropriate rate of exchange prevailing at the balance sheet date must be used to determine the amounts concerned.

### **Sundry assets and liabilities**

**82.** Where any amount shown under either of the following items is material, particulars must be given of each type of asset or liability included in that item, including an explanation of the nature of the asset or liability and the amount included with respect to assets or liabilities of that type—

- (a) assets item 13 (other assets),
- (b) liabilities item 4 (other liabilities).

### **Unmatured forward transactions**

**83.**—(1) The following must be disclosed with respect to unmaturing forward transactions outstanding at the balance sheet date—

- (a) the categories of such transactions, by reference to an appropriate system of classification,
- (b) whether, in the case of each such category, they have been made, to any material extent, for the purpose of hedging the effects of fluctuations in interest rates, exchange rates and market prices or whether they have been made, to any material extent, for dealing purposes.

(2) Transactions falling within sub-paragraph (1) must include all those in relation to which income or expenditure is to be included in—

- (a) format 1, item 6 or format 2, items B4 or A3 (dealing [profits][losses]),
- (b) format 1, items 1 or 2, or format 2, items B1 or A1, by virtue of notes (1)(b) and (2)(b) to the profit and loss account formats (forward contracts, spread over the actual duration of the contract and similar in nature to interest).

### **Miscellaneous matters**

**84.**—(1) Particulars must be given of any case where the cost of any asset is for the first time determined under paragraph 37 in Part 2 of this Schedule.

(2) Where any outstanding loans made under the authority of section 682(2)(b), (c) or (d) of the 2006 Act (various cases of financial assistance by a company for purchase of its own shares) are included under any item shown in the company's balance sheet, the aggregate amount of those loans must be disclosed for each item in question.

### *Information supplementing the profit and loss account*

**85.** Paragraphs 86 to 91 require information which either supplements the information given with respect to any particular items shown in the profit and loss account or otherwise provides particulars of income or expenditure of the company or of circumstances affecting the items shown in the profit and loss account (see regulation 5(2) for exemption for companies falling within section 408 of the 2006 Act (individual profit and loss account where group accounts prepared)).

#### **Particulars of tax**

**86.**—(1) Particulars must be given of any special circumstances which affect liability in respect of taxation of profits, income or capital gains for the financial year or liability in respect of taxation of profits, income or capital gains for succeeding financial years.

(2) The following amounts must be stated—

- (a) the amount of the charge for United Kingdom corporation tax,
- (b) if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief,
- (c) the amount of the charge for United Kingdom income tax, and
- (d) the amount of the charge for taxation imposed outside the United Kingdom of profits, income and (so far as charged to revenue) capital gains.

These amounts must be stated separately in respect of each of the amounts which is shown under the following items in the profit and loss account, that is to say format 1 item 16, format 2 item A10 (tax on [profit][loss] on ordinary activities) and format 1 item 21, format 2 item A13 (tax on extraordinary [profit][loss]).

#### **Particulars of income**

**87.**—(1) A company must disclose, with respect to income included in the following items in the profit and loss account formats, the amount of that income attributable to each of the geographical markets in which the company has operated during the financial year—

- (a) format 1 item 1, format 2 item B1 (interest receivable),
- (b) format 1 item 3, format 2 item B2 (dividend income),
- (c) format 1 item 4, format 2 item B3 (fees and commissions receivable),
- (d) format 1 item 6, format 2 item B4 (dealing profits), and
- (e) format 1 item 7, format 2 item B7 (other operating income).

(2) In analysing for the purposes of this paragraph the source of any income, the directors must have regard to the manner in which the company's activities are organised.

(3) For the purposes of this paragraph, markets which do not differ substantially from each other shall be treated as one market.

(4) Where in the opinion of the directors the disclosure of any information required by this paragraph would be seriously prejudicial to the interests of the company, that information need not be disclosed, but the fact that any such information has not been disclosed must be stated.

#### **Management and agency services**

**88.** A company providing any management and agency services to customers must disclose that fact, if the scale of such services provided is material in the context of its business as a whole.

### **Subordinated liabilities**

**89.** Any amounts charged to the profit and loss account representing charges incurred during the year with respect to subordinated liabilities must be disclosed.

### **Sundry income and charges**

**90.** Where any amount to be included in any of the following items is material, particulars must be given of each individual component of the figure, including an explanation of their nature and amount—

- (a) in format 1—
  - (i) items 7 and 10 (other operating income and charges),
  - (ii) items 18 and 19 (extraordinary income and charges);
- (b) in format 2—
  - (i) items A6 and B7 (other operating charges and income),
  - (ii) items A12 and B10 (extraordinary charges and income).

### **Miscellaneous matters**

**91.**—(1) Where any amount relating to any preceding financial year is included in any item in the profit and loss account, the effect must be stated.

(2) The effect must be stated of any transactions that are exceptional by virtue of size or incidence though they fall within the ordinary activities of the company.

### **Related party transactions**

**92.**—(1) Particulars may be given of transactions which the company has entered into with related parties, and must be given if such transactions are material and have not been concluded under normal market conditions.

(2) The particulars of transactions required to be disclosed by sub-paragraph (1) must include—

- (a) the amount of such transactions,
- (b) the nature of the related party relationship, and
- (c) other information about the transactions necessary for an understanding of the financial position of the company.

(3) Information about individual transactions may be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the company.

(4) Particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is a party to the transaction is wholly-owned by such a member.

(5) In this paragraph, “related party” has the same meaning as in international accounting standards.

## PART 4

### INTERPRETATION OF THIS SCHEDULE

#### Definitions for this Schedule

93. The following definitions apply for the purposes of this Schedule.

#### Financial fixed assets

94. “Financial fixed assets” means loans and advances and securities held as fixed assets; participating interests and shareholdings in group undertakings are to be regarded as financial fixed assets.

#### Financial instruments

95. For the purposes of this Schedule, 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 designated for such purpose at their inception, and
- (c) are expected to be settled by delivery of the commodity.

96.—(1) The expressions listed in sub-paragraph (2) have the same meaning in paragraphs 44 to 49, 66 to 68 and 95 of this Schedule as they have in Council Directives [78/660/EEC](#) on the annual accounts of certain types of companies(7) and [86/635/EEC](#) on the annual accounts and consolidated accounts of banks and other financial institutions(8).

(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”.

#### Repayable on demand

97. “Repayable on demand”, in connection with deposits, loans or advances, means that they can at any time be withdrawn or demanded without notice or that a maturity or period of notice of not more than 24 hours or one working day has been agreed for them.

#### Sale and repurchase transaction

98.—(1) “Sale and repurchase transaction” means a transaction which involves the transfer by a credit institution or customer (“the transferor”) to another credit institution or customer (“the transferee”) of assets subject to an agreement that the same assets, or (in the case of fungible assets)

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(7) O.J. L222 of 14.8.1978, page 11, as amended in particular by Directives [2001/65/EEC](#), [2003/51/EEC](#) and [2006/46/EEC](#) of the European Parliament and of the Council (O.J. L238 of 27.12.2001, page 28, O.J. L178 of 17.7.2003, page 16 and O.J. L224 of 16.8.2006, page 1).

(8) O.J. No. L372 of 31st December 1986, page 1, as amended in particular by Directives [2001/65/EEC](#), [2003/51/EEC](#) and [2006/46/EEC](#) of the European Parliament and of the Council (O.J. L238 of 27.12.2001, page 28, O.J. L178 of 17.7.2003, page 16 and O.J. L224 of 16.8.2006, page 1).

equivalent assets, will subsequently be transferred back to the transferor at a specified price on a date specified or to be specified by the transferor.

(2) The following are not to be regarded as sale and repurchase transactions for the purposes of sub-paragraph (1)—

- (a) forward exchange transactions,
- (b) options,
- (c) transactions involving the issue of debt securities with a commitment to repurchase all or part of the issue before maturity, or
- (d) any similar transactions.

### **Sale and option to resell transaction**

**99.** “Sale and option to resell transaction” means a transaction which involves the transfer by a credit institution or customer (“the transferor”) to another credit institution or customer (“the transferee”) of assets subject to an agreement that the transferee is entitled to require the subsequent transfer of the same assets, or (in the case of fungible assets) equivalent assets, back to the transferor at the purchase price or another price agreed in advance on a date specified or to be specified.

## SCHEDULE 3

Regulation 6(1)

### INSURANCE COMPANIES: COMPANIES ACT INDIVIDUAL ACCOUNTS

## PART 1

### GENERAL RULES AND FORMATS

#### SECTION A

#### GENERAL RULES

**1.—(1)** Subject to the following provisions of this Schedule—

- (a) every balance sheet of a company must show the items listed in the balance sheet format in Section B of this Part, and
- (b) every profit and loss account must show the items listed in the profit and loss account format in Section B.

(2) References in this Schedule to the items listed in any of the formats in Section B are to those items read together with any of the notes following the formats which apply to those items.

(3) The items must be shown in the order and under the headings and sub-headings given in the particular format, but—

- (a) the notes to the formats may permit alternative positions for any particular items, and
- (b) the heading or sub-heading for any item does not have to be distinguished by any letter or number assigned to that item in the format used.

**2.—(1)** Any item required to be shown in a company’s balance sheet or profit and loss account may be shown in greater detail than required by the particular format.

(2) The balance sheet or profit and loss account may include an item representing or covering the amount of any asset or liability, income or expenditure not specifically covered by any of the

items listed in the formats set out in Section B, save that none of the following may be treated as assets in any balance sheet—

- (a) preliminary expenses,
- (b) expenses of, and commission on, any issue of shares or debentures, and
- (c) costs of research.

**3.—**(1) The directors may combine items to which Arabic numbers are given in the balance sheet format set out in Section B (except for items concerning technical provisions and the reinsurers' share of technical provisions), and items to which lower case letters in parentheses are given in the profit and loss account format so set out (except for items within items I.1 and 4 and II.1, 5 and 6) if—

- (a) their individual amounts are not material for the purpose of giving a true and fair view, or
- (b) the combination facilitates the assessment of the state of affairs or profit or loss of the company for the financial year in question.

(2) Where sub-paragraph (1)(b) applies—

- (a) the individual amounts of any items which have been combined must be disclosed in a note to the accounts, and
- (b) any notes required by this Schedule to the items so combined must, notwithstanding the combination, be given.

**4.—**(1) Subject to sub-paragraph (2), the directors must not include a heading or sub-heading corresponding to an item in the balance sheet or profit and loss account format used if there is no amount to be shown for that item for the financial year to which the balance sheet or profit and loss account relates.

(2) Where an amount can be shown for the item in question for the immediately preceding financial year that amount must be shown under the heading or sub-heading required by the format for that item.

**5.—**(1) For every item shown in the balance sheet or profit and loss account the corresponding amount for the immediately preceding financial year must also be shown.

(2) Where that corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the balance sheet or profit and loss account relates, the former amount may be adjusted, and particulars of the non-comparability and of any adjustment must be disclosed in a note to the accounts.

**6.** Subject to the provisions of this Schedule, amounts in respect of items representing assets or income may not be set off against amounts in respect of items representing liabilities or expenditure (as the case may be), or vice versa.

**7.—**(1) The provisions of this Schedule which relate to long-term business apply, with necessary modifications, to business which consists of effecting or carrying out relevant contracts of general insurance which—

- (a) is transacted exclusively or principally according to the technical principles of long-term business, and
- (b) is a significant amount of the business of the company.

(2) For the purposes of paragraph (1), a contract of general insurance is a relevant contract if the risk insured against relates to—

- (a) accident, or
- (b) sickness.

(3) Sub-paragraph (2) must be read with—

- (a) section 22 of the Financial Services and Markets Act 2000<sup>(9)</sup>,
- (b) the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001<sup>(10)</sup>, and
- (c) Schedule 2 to that Act.

8. The company’s directors 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.

## SECTION B

### THE REQUIRED FORMATS<sup>(11)</sup>

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#### Preliminary

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9.—(1) Where in respect of any item to which an Arabic number is assigned in the balance sheet or profit and loss account format, the gross amount and reinsurance amount or reinsurers’ share are required to be shown, a sub-total of those amounts must also be given.

(2) Where in respect of any item to which an Arabic number is assigned in the profit and loss account format, separate items are required to be shown, then a separate sub-total of those items must also be given in addition to any sub-total required by sub-paragraph (1).

10.—(1) In the profit and loss account format set out below—

- (a) the heading “Technical account — General business” is for business which consists of effecting or carrying out contracts of general business; and
- (b) the heading “Technical account — Long-term business” is for business which consists of effecting or carrying out contracts of long-term insurance.

(2) In sub-paragraph (1), references to—

- (a) contracts of general or long-term insurance, and
- (b) the effecting or carrying out of such contracts,

must be read with section 22 of the Financial Services and Markets Act 2000, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, and Schedule 2 to that Act.

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#### Balance sheet format

#### ASSETS

A. Called up share capital not paid *(1)*

B. Intangible assets

- 1. Development costs
- 2. Concessions, patents, licences, trade marks and similar rights and assets *(2)*

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<sup>(9)</sup> 2000 c.8.

<sup>(10)</sup> S.I. 2001/544, as amended by S.I. 2001/3544, S.I. 2002/682, S.I. 2002/1310, S.I. 2002/1776, S.I. 2002/1777, S.I. 2003/1475, S.I. 2003/1476, S.I. 2003/2822, S.I. 2004/1610, S.I. 2004/2737, S.I. 2004/3379, S.I. 2005/593, S.I. 2005/1518, S.I. 2005/2114 and S.I. 2006/1969.

<sup>(11)</sup> A number in brackets following any item is a reference to the note of that number in the notes following the formats.



3. Goodwill (3)
4. Payments on account

C. Investments

- I. Land and buildings (4)
- II. Investments in group undertakings and participating interests
  1. Shares in group undertakings
  2. Debt securities issued by, and loans to, group undertakings
  3. Participating interests
  4. Debt securities issued by, and loans to, undertakings in which the company has a participating interest
- III. Other financial investments
  1. Shares and other variable-yield securities and units in unit trusts
  2. Debt securities and other fixed-income securities (5)
  3. Participation in investment pools (6)
  4. Loans secured by mortgages (7)
  5. Other loans (7)
  6. Deposits with credit institutions (8)
  7. Other (9)
- IV. Deposits with ceding undertakings (10)

D. Assets held to cover linked liabilities (11)

Da. Reinsurers' share of technical provisions (12)

1. Provision for unearned premiums
2. Long-term business provision
3. Claims outstanding
4. Provisions for bonuses and rebates
5. Other technical provisions
6. Technical provisions for unit-linked liabilities

E. Debtors (13)

- I. Debtors arising out of direct insurance operations
  1. Policyholders
  2. Intermediaries

- II. Debtors arising out of reinsurance operations
- III. Other debtors
- IV. Called up share capital not paid (1)

F. Other assets

I. Tangible assets

- 1. Plant and machinery
- 2. Fixtures, fittings, tools and equipment
- 3. Payments on account (other than deposits paid on land and buildings) and assets (other than buildings) in course of construction

II. Stocks

- 1. Raw materials and consumables
- 2. Work in progress
- 3. Finished goods and goods for resale
- 4. Payments on account

III. Cash at bank and in hand

IV. Own shares (14)

V. Other (15)

G. Prepayments and accrued income

I. Accrued interest and rent (16)

II. Deferred acquisition costs (17)

III. Other prepayments and accrued income

LIABILITIES

A. Capital and reserves

I. Called up share capital or equivalent funds

II. Share premium account

III. Revaluation reserve

IV. Reserves

- 1. Capital redemption reserve
- 2. Reserve for own shares
- 3. Reserves provided for by the articles of association
- 4. Other reserves

## V. Profit and loss account

- B. Subordinated liabilities (18)
- Ba. Fund for future appropriations (19)
- C. Technical provisions
  - 1. Provision for unearned premiums (20)
    - (a) gross amount
    - (b) reinsurance amount (12)
  - 2. Long-term business provision (20) (21) (26)
    - (a) gross amount
    - (b) reinsurance amount (12)
  - 3. Claims outstanding (22)
    - (a) gross amount
    - (b) reinsurance amount (12)
  - 4. Provision for bonuses and rebates (23)
    - (a) gross amount
    - (b) reinsurance amount (12)
  - 5. Equalisation provision (24)
  - 6. Other technical provisions (25)
    - (a) gross amount
    - (b) reinsurance amount (12)
- D. Technical provisions for linked liabilities (26)
  - (a) gross amount
  - (b) reinsurance amount (12)
- E. Provisions for other risks
  - 1. Provisions for pensions and similar obligations
  - 2. Provisions for taxation
  - 3. Other provisions
- F. Deposits received from reinsurers (27)

- G. Creditors (28)
  - I. Creditors arising out of direct insurance operations
  - II. Creditors arising out of reinsurance operations
  - III. Debenture loans (29)
  - IV. Amounts owed to credit institutions
  - V. Other creditors including taxation and social security

H. Accruals and deferred income

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**Notes on the balance sheet format**

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*(1) Called up share capital not paid*

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(Assets items A and E.IV.)

This item may be shown in either of the positions given in the format.

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*(2) Concessions, patents, licences, trade marks and similar rights and assets*

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(Assets item B.2.)

Amounts in respect of assets are only to be included in a company's balance sheet under this item if either—

- (a) the assets were acquired for valuable consideration and are not required to be shown under goodwill, or
- (b) the assets in question were created by the company itself.

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*(3) Goodwill*

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(Assets item B.3.)

Amounts representing goodwill are only to be included to the extent that the goodwill was acquired for valuable consideration.

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*(4) Land and buildings*

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(Assets item C.I.)

The amount of any land and buildings occupied by the company for its own activities must be shown separately in the notes to the accounts.

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*(5) Debt securities and other fixed-income securities*

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(Assets item C.III.2.)

This item is to comprise transferable debt securities and any other transferable fixed-income securities issued by credit institutions, other undertakings or public bodies, in so far as they are not covered by assets item C.II.2 or C.II.4.

Securities bearing interest rates that vary in accordance with specific factors, for example the interest rate on the inter-bank market or on the Euromarket, are also to be regarded as debt securities and other fixed-income securities and so be included under this item.

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*(6) Participation in investment pools*

---

(Assets item C.III.3.)

This item is to comprise shares held by the company in joint investments constituted by several undertakings or pension funds, the management of which has been entrusted to one of those undertakings or to one of those pension funds.

---

*(7) Loans secured by mortgages and other loans*

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(Assets items C.III.4 and C.III.5.)

Loans to policyholders for which the policy is the main security are to be included under “Other loans” and their amount must be disclosed in the notes to the accounts. Loans secured by mortgage are to be shown as such even where they are also secured by insurance policies. Where the amount of “Other loans” not secured by policies is material, an appropriate breakdown must be given in the notes to the accounts.

---

*(8) Deposits with credit institutions*

---

(Assets item C.III.6.)

This item is to comprise sums the withdrawal of which is subject to a time restriction. Sums deposited with no such restriction must be shown under assets item F.III even if they bear interest.

---

*(9) Other*

---

(Assets item C.III.7.)

This item is to comprise those investments which are not covered by assets items C.III.1 to 6. Where the amount of such investments is significant, they must be disclosed in the notes to the accounts.

---

*(10) Deposits with ceding undertakings*

---

(Assets item C.IV.)

Where the company accepts reinsurance this item is to comprise amounts, owed by the ceding undertakings and corresponding to guarantees, which are deposited with those ceding undertakings or with third parties or which are retained by those undertakings.

These amounts may not be combined with other amounts owed by the ceding insurer to the reinsurer or set off against amounts owed by the reinsurer to the ceding insurer.

Securities deposited with ceding undertakings or third parties which remain the property of the company must be entered in the company’s accounts as an investment, under the appropriate item.

---

*(11) Assets held to cover linked liabilities*

---

(Assets item D.)

In respect of long-term business, this item is to comprise investments made pursuant to long-term policies under which the benefits payable to the policyholder are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

This item is also to comprise investments which are held on behalf of the members of a tontine and are intended for distribution among them.

---

*(12) Reinsurance amounts*

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(Assets item Da: liabilities items C.1.(b), 2.(b), 3.(b), 4.(b) and 6.(b) and D.(b).)

The reinsurance amounts may be shown either under assets item Da or under liabilities items C.1.(b), 2.(b), 3.(b), 4.(b) and 6.(b) and D.(b).

The reinsurance amounts are to comprise the actual or estimated amounts which, under contractual reinsurance arrangements, are deducted from the gross amounts of technical provisions.

As regards the provision for unearned premiums, the reinsurance amounts must be calculated according to the methods referred to in paragraph 50 below or in accordance with the terms of the reinsurance policy.

---

*(13) Debtors*

---

(Assets item E.)

Amounts owed by group undertakings and undertakings in which the company has a participating interest must be shown separately as sub-items of assets items E.I, II and III.

---

*(14) Own shares*

---

(Assets item F.IV.)

The nominal value of the shares must be shown separately under this item.

---

*(15) Other*

---

(Assets item F.V.)

This item is to comprise those assets which are not covered by assets items F.I to IV. Where such assets are material they must be disclosed in the notes to the accounts.

---

*(16) Accrued interest and rent*

---

(Assets item G.I.)

This item is to comprise those items that represent interest and rent that have been earned up to the balance-sheet date but have not yet become receivable.

---

*(17) Deferred acquisition costs*

---

(Assets item G.II.)

This item is to comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year (“deferred acquisition costs”), except in so far as—

- (a) allowance has been made in the computation of the long-term business provision made under paragraph 52 below and shown under liabilities item C2 or D in the balance sheet, for—
  - (i) the explicit recognition of such costs, or
  - (ii) the implicit recognition of such costs by virtue of the anticipation of future income from which such costs may prudently be expected to be recovered, or
- (b) allowance has been made for such costs in respect of general business policies by a deduction from the provision for unearned premiums made under paragraph 50 below and shown under liabilities item C.I in the balance sheet.

Deferred acquisition costs arising in general business must be distinguished from those arising in long-term business.

In the case of general business, the amount of any deferred acquisition costs must be established on a basis compatible with that used for unearned premiums.

There must be disclosed in the notes to the accounts—

- (c) how the deferral of acquisition costs has been treated (unless otherwise expressly stated in the accounts), and
- (d) where such costs are included as a deduction from the provisions at liabilities item C.I, the amount of such deduction, or
- (e) where the actuarial method used in the calculation of the provisions at liabilities item C.2 or D has made allowance for the explicit recognition of such costs, the amount of the costs so recognised.

---

*(18) Subordinated liabilities*

---

(Liabilities item B.)

This item is to comprise all liabilities in respect of which there is a contractual obligation that, in the event of winding up or of bankruptcy, they are to be repaid only after the claims of all other creditors have been met (whether or not they are represented by certificates).

---

*(19) Fund for future appropriations*

---

(Liabilities item Ba.)

This item is to comprise all funds the allocation of which either to policyholders or to shareholders has not been determined by the end of the financial year.

Transfers to and from this item must be shown in item II.12a in the profit and loss account.

---

*(20) Provision for unearned premiums*

---

(Liabilities item C.1.)

In the case of long-term business the provision for unearned premiums may be included in liabilities item C.2 rather than in this item.

The provision for unearned premiums is to comprise the amount representing that part of gross premiums written which is estimated to be earned in the following financial year or to subsequent financial years.

---

*(21) Long-term business provision*

---

(Liabilities item C.2.)

This item is to comprise the actuarially estimated value of the company's liabilities (excluding technical provisions included in liabilities item D), including bonuses already declared and after deducting the actuarial value of future premiums.

This item is also to comprise claims incurred but not reported, plus the estimated costs of settling such claims.

---

*(22) Claims outstanding*

---

(Liabilities item C.3.)

This item is to comprise the total estimated ultimate cost to the company of settling all claims arising from events which have occurred up to the end of the financial year (including, in the case of general business, claims incurred but not reported) less amounts already paid in respect of such claims.

---

*(23) Provision for bonuses and rebates*

---

(Liabilities item C.4.)

This item is to comprise amounts intended for policyholders or contract beneficiaries by way of bonuses and rebates as defined in Note (5) on the profit and loss account format to the extent that such amounts have not been credited to policyholders or contract beneficiaries or included in liabilities item Ba or in liabilities item C.2.

---

*(24) Equalisation provision*

---

(Liabilities item C.5.)

This item is to comprise the amount of any equalisation reserve maintained in respect of general business by the company, in accordance with the rules in section 1.4 of the Prudential Sourcebook for Insurers<sup>(12)</sup> made by the Financial Services Authority under Part 10 of the Financial Services and Markets Act 2000.

This item is also to comprise any amounts which, in accordance with Council Directive [87/343/EEC](#) of 22nd June 1987<sup>(13)</sup>, are required to be set aside by a company to equalise fluctuations in loss ratios in future years or to provide for special risks.

A company which otherwise constitutes reserves to equalise fluctuations in loss ratios in future years or to provide for special risks must disclose that fact in the notes to the accounts.

---

*(25) Other technical provisions*

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(Liabilities item C.6.)

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<sup>(12)</sup> FSA 2006/42.

<sup>(13)</sup> O.J. No. L185 of 4th July 1987, p.72.



This item is to comprise, inter alia, the provision for unexpired risks as defined in paragraph 91 below. Where the amount of the provision for unexpired risks is significant, it must be disclosed separately either in the balance sheet or in the notes to the accounts.

---

*(26) Technical provisions for linked liabilities*

---

(Liabilities item D.)

This item is to comprise technical provisions constituted to cover liabilities relating to investment in the context of long-term policies under which the benefits payable to policyholders are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

Any additional technical provisions constituted to cover death risks, operating expenses or other risks (such as benefits payable at the maturity date or guaranteed surrender values) must be included under liabilities item C.2.

This item must also comprise technical provisions representing the obligations of a tontine's organiser in relation to its members.

---

*(27) Deposits received from reinsurers*

---

(Liabilities item F.)

Where the company cedes reinsurance, this item is to comprise amounts deposited by or withheld from other insurance undertakings under reinsurance contracts. These amounts may not be merged with other amounts owed to or by those other undertakings.

Where the company cedes reinsurance and has received as a deposit securities which have been transferred to its ownership, this item is to comprise the amount owed by the company by virtue of the deposit.

---

*(28) Creditors*

---

(Liabilities item G.)

Amounts owed to group undertakings and undertakings in which the company has a participating interest must be shown separately as sub-items.

---

*(29) Debenture loans*

---

(Liabilities item G.III.)

The amount of any convertible loans must be shown separately.

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**Special rules for balance sheet format**

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**Additional items**

**11.—(1)** Every balance sheet of a company which carries on long-term business must show separately as an additional item the aggregate of any amounts included in liabilities item A (capital and reserves) which are required not to be treated as realised profits under section 843 of the 2006 Act.

(2) A company which carries on long-term business must show separately, in the balance sheet or in the notes to the accounts, the total amount of assets representing the long-term fund valued in accordance with the provisions of this Schedule.

### **Managed funds**

**12.**—(1) For the purposes of this paragraph “managed funds” are funds of a group pension fund—

- (a) the management of which constitutes long-term insurance business, and
- (b) which the company administers in its own name but on behalf of others, and
- (c) to which it has legal title.

(2) The company must, in any case where assets and liabilities arising in respect of managed funds fall to be treated as assets and liabilities of the company, adopt the following accounting treatment: assets and liabilities representing managed funds are to be included in the company’s balance sheet, with the notes to the accounts disclosing the total amount included with respect to such assets and liabilities in the balance sheet and showing the amount included under each relevant balance sheet item in respect of such assets or (as the case may be) liabilities.

### **Deferred acquisition costs**

**13.** The costs of acquiring insurance policies which are incurred during a financial year but which relate to a subsequent financial year must be deferred in a manner specified in Note (17) on the balance sheet format.

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## **Profit and loss account format**

### **I. Technical account — General business**

#### **1. Earned premiums, net of reinsurance**

- (a) gross premiums written (1)
- (b) outward reinsurance premiums (2)
- (c) change in the gross provision for unearned premiums
- (d) change in the provision for unearned premiums, reinsurers’ share

#### **2. Allocated investment return transferred from the non-technical account (item III.6) (10)**

#### **2a. Investment income (8) (10)**

- (a) income from participating interests, with a separate indication of that derived from group undertakings
- (b) income from other investments, with a separate indication of that derived from group undertakings
  - (aa) income from land and buildings
  - (bb) income from other investments

- (c) value re-adjustments on investments
- (d) gains on the realisation of investments
- 3. Other technical income, net of reinsurance
- 4. Claims incurred, net of reinsurance (4)
  - (a) claims paid
    - (aa) gross amount
    - (bb) reinsurers' share
  - (b) change in the provision for claims
    - (aa) gross amount
    - (bb) reinsurers' share
- 5. Changes in other technical provisions, net of reinsurance, not shown under other headings
- 6. Bonuses and rebates, net of reinsurance (5)
- 7. Net operating expenses
  - (a) acquisition costs (6)
  - (b) change in deferred acquisition costs
  - (c) administrative expenses (7)
  - (d) reinsurance commissions and profit participation
- 8. Other technical charges, net of reinsurance
- 8a. Investment expenses and charges (8)
  - (a) investment management expenses, including interest
  - (b) value adjustments on investments
  - (c) losses on the realisation of investments
- 9. Change in the equalisation provision
- 10. Sub-total (balance on the technical account for general business) (item III.1)

## II. Technical account — Long-term business

1. Earned premiums, net of reinsurance
  - (a) gross premiums written (1)
  - (b) outward reinsurance premiums (2)
  - (c) change in the provision for unearned premiums, net of reinsurance (3)
2. Investment income (8) (10)
  - (a) income from participating interests, with a separate indication of that derived from group undertakings
  - (b) income from other investments, with a separate indication of that derived from group undertakings
    - (aa) income from land and buildings
    - (bb) income from other investments
  - (c) value re-adjustments on investments
  - (d) gains on the realisation of investments
3. Unrealised gains on investments (9)
4. Other technical income, net of reinsurance
5. Claims incurred, net of reinsurance (4)
  - (a) claims paid
    - (aa) gross amount
    - (bb) reinsurers' share
  - (b) change in the provision for claims
    - (aa) gross amount
    - (bb) reinsurers' share
6. Change in other technical provisions, net of reinsurance, not shown under other headings
  - (a) Long-term business provision, net of reinsurance (3)
    - (aa) gross amount
    - (bb) reinsurers' share
  - (b) other technical provisions, net of reinsurance

7. Bonuses and rebates, net of reinsurance (5)
  8. Net operating expenses
    - (a) acquisition costs (6)
    - (b) change in deferred acquisition costs
    - (c) administrative expenses (7)
    - (d) reinsurance commissions and profit participation
  9. Investment expenses and charges (8)
    - (a) investment management expenses, including interest
    - (b) value adjustments on investments
    - (c) losses on the realisation of investments
  10. Unrealised losses on investments (9)
  11. Other technical charges, net of reinsurance
  - 11a. Tax attributable to the long-term business
  12. Allocated investment return transferred to the non-technical account (item III.4)
  - 12a. Transfers to or from the fund for future appropriations
  13. Sub-total (balance on the technical account — long-term business) (item III.2)
- III. Non-technical account
1. Balance on the general business technical account (item I.10)
  2. Balance on the long-term business technical account (item II.13)
  - 2a. Tax credit attributable to balance on the long-term business technical account
  3. Investment income (8)

- (a) income from participating interests, with a separate indication of that derived from group undertakings
  - (b) income from other investments, with a separate indication of that derived from group undertakings
    - (aa) income from land and buildings
    - (bb) income from other investments
  - (c) value re-adjustments on investments
  - (d) gains on the realisation of investments
- 3a. Unrealised gains on investments (9)
4. Allocated investment return transferred from the long-term business technical account (item II.12) (10)
5. Investment expenses and charges (8)
  - (a) investment management expenses, including interest
  - (b) value adjustments on investments
  - (c) losses on the realisation of investments
- 5a. Unrealised losses on investments (9)
6. Allocated investment return transferred to the general business technical account (item I.2) (10)
7. Other income
8. Other charges, including value adjustments
- 8a. Profit or loss on ordinary activities before tax
9. Tax on profit or loss on ordinary activities
10. Profit or loss on ordinary activities after tax
11. Extraordinary income

12. Extraordinary charges
13. Extraordinary profit or loss
14. Tax on extraordinary profit or loss
15. Other taxes not shown under the preceding items
16. Profit or loss for the financial year

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**Notes on the profit and loss account format**

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*(1) Gross premiums written*

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(General business technical account: item I.1.(a).)

Long-term business technical account: item II.1.(a.)

This item is to comprise all amounts due during the financial year in respect of insurance contracts entered into regardless of the fact that such amounts may relate in whole or in part to a later financial year, and must include inter alia—

- (i) premiums yet to be determined, where the premium calculation can be done only at the end of the year;
- (ii) single premiums, including annuity premiums, and, in long-term business, single premiums resulting from bonus and rebate provisions in so far as they must be considered as premiums under the terms of the contract;
- (iii) additional premiums in the case of half-yearly, quarterly or monthly payments and additional payments from policyholders for expenses borne by the company;
- (iv) in the case of co-insurance, the company's portion of total premiums;
- (v) reinsurance premiums due from ceding and retroceding insurance undertakings, including portfolio entries,

after deduction of cancellations and portfolio withdrawals credited to ceding and retroceding insurance undertakings.

The above amounts must not include the amounts of taxes or duties levied with premiums.

---

*(2) Outward reinsurance premiums*

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(General business technical account: item I.1.(b).)

Long-term business technical account: item II.1.(b.)

This item is to comprise all premiums paid or payable in respect of outward reinsurance contracts entered into by the company. Portfolio entries payable on the conclusion or amendment of outward reinsurance contracts must be added; portfolio withdrawals receivable must be deducted.

---

*(3) Change in the provision for unearned premiums, net of reinsurance*

---

(Long-term business technical account: items II.1.(c) and II.6.(a).)

In the case of long-term business, the change in unearned premiums may be included either in item II.1.(c) or in item II.6.(a) of the long-term business technical account.

---

*(4) Claims incurred, net of reinsurance*

---

(General business technical account: item I.4.

Long-term business technical account: item II.5.)

This item is to comprise all payments made in respect of the financial year with the addition of the provision for claims (but after deducting the provision for claims for the preceding financial year).

These amounts must include annuities, surrenders, entries and withdrawals of loss provisions to and from ceding insurance undertakings and reinsurers and external and internal claims management costs and charges for claims incurred but not reported such as are referred to in paragraphs 53(2) and 55 below.

Sums recoverable on the basis of subrogation and salvage (within the meaning of paragraph 53 below) must be deducted.

Where the difference between—

- (a) the loss provision made at the beginning of the year for outstanding claims incurred in previous years, and
- (b) the payments made during the year on account of claims incurred in previous years and the loss provision shown at the end of the year for such outstanding claims,

is material, it must be shown in the notes to the accounts, broken down by category and amount.

---

*(5) Bonuses and rebates, net of reinsurance*

---

(General business technical account: item I.6.

Long-term business technical account: item II.7.)

Bonuses are to comprise all amounts chargeable for the financial year which are paid or payable to policyholders and other insured parties or provided for their benefit, including amounts used to increase technical provisions or applied to the reduction of future premiums, to the extent that such amounts represent an allocation of surplus or profit arising on business as a whole or a section of business, after deduction of amounts provided in previous years which are no longer required.

Rebates are to comprise such amounts to the extent that they represent a partial refund of premiums resulting from the experience of individual contracts.

Where material, the amount charged for bonuses and that charged for rebates must be disclosed separately in the notes to the accounts.

---

*(6) Acquisition costs*

---

(General business technical account: item I.7.(a).

Long-term business technical account: item II.8.(a).)

This item is to comprise the costs arising from the conclusion of insurance contracts. They must cover both direct costs, such as acquisition commissions or the cost of drawing up the insurance document



or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

In the case of long-term business, policy renewal commissions must be included under item II.8.(c) in the long-term business technical account.

---

*(7) Administrative expenses*

---

(General business technical account: item I.7.(c).

Long-term business technical account: item II.8.(c).)

This item must include the costs arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance. They must in particular include staff costs and depreciation provisions in respect of office furniture and equipment in so far as these need not be shown under acquisition costs, claims incurred or investment charges.

Item II.8.(c) must also include policy renewal commissions.

---

*(8) Investment income, expenses and charges*

---

(General business technical account: items I.2a and 8a.

Long-term business technical account: items II.2 and 9.

Non-technical account: items III.3 and 5.)

Investment income, expenses and charges must, to the extent that they arise in the long-term fund, be disclosed in the long-term business technical account. Other investment income, expenses and charges must either be disclosed in the non-technical account or attributed between the appropriate technical and non-technical accounts. Where the company makes such an attribution it must disclose the basis for it in the notes to the accounts.

---

*(9) Unrealised gains and losses on investments*

---

(Long-term business technical account: items II.3 and 10.

Non-technical account: items III.3a and 5a.)

In the case of investments attributed to the long-term fund, the difference between the valuation of the investments and their purchase price or, if they have previously been valued, their valuation as at the last balance sheet date, may be disclosed (in whole or in part) in item II.3 or II.10 (as the case may be) of the long-term business technical account, and in the case of investments shown as assets under assets item D (assets held to cover linked liabilities) must be so disclosed.

In the case of other investments, the difference between the valuation of the investments and their purchase price or, if they have previously been valued, their valuation as at the last balance sheet date, may be disclosed (in whole or in part) in item III.3a or III.5a (as the case may require) of the non-technical account.

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*(10) Allocated investment return*

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(General business technical account: item I.2.

Long-term business technical account: item II.2.

Non-technical account: items III.4 and 6.)

The allocated return may be transferred from one part of the profit and loss account to another.

Where part of the investment return is transferred to the general business technical account, the transfer from the non-technical account must be deducted from item III.6 and added to item I.2.

Where part of the investment return disclosed in the long-term business technical account is transferred to the non-technical account, the transfer to the non-technical account shall be deducted from item II.12 and added to item III.4.

The reasons for such transfers (which may consist of a reference to any relevant statutory requirement) and the bases on which they are made must be disclosed in the notes to the accounts.

## PART 2

### ACCOUNTING PRINCIPLES AND RULES

#### SECTION A

#### ACCOUNTING PRINCIPLES

##### **Preliminary**

**14.** The amounts to be included in respect of all items shown in a company's accounts must be determined in accordance with the principles set out in this Section.

**15.** But if it appears to the company's directors that there are special reasons for departing from any of those principles in preparing the company's accounts in respect of any financial year they may do so, in which case particulars of the departure, the reasons for it and its effect must be given in a note to the accounts.

##### **Accounting principles**

**16.** The company is presumed to be carrying on business as a going concern.

**17.** Accounting policies must be applied consistently within the same accounts and from one financial year to the next.

**18.** The amount of any item must be determined on a prudent basis, and in particular—

- (a) subject to note (9) on the profit and loss account format, only profits realised at the balance sheet date are to be included in the profit and loss account, and
- (b) all liabilities which have arisen in respect of the financial year to which the accounts relate or a previous financial year must be taken into account, including those which only become apparent between the balance sheet date and the date on which it is signed on behalf of the board of directors in accordance with section 414 of the 2006 Act (approval and signing of accounts).

**19.** All income and charges relating to the financial year to which the accounts relate are to be taken into account, without regard to the date of receipt or payment.

**20.** In determining the aggregate amount of any item, the amount of each individual asset or liability that falls to be taken into account must be determined separately.

##### **Valuation**

**21.—(1)** The amounts to be included in respect of assets of any description mentioned in paragraph 22 (valuation of assets: general) must be 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 C (valuation at fair value).
- (2) The amounts to be included in respect of assets of any description mentioned in paragraph 24 (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 C.
- (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 C 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.

## SECTION B

### CURRENT VALUE ACCOUNTING RULES

#### Valuation of assets: general

**22.**—(1) Subject to paragraph 24, investments falling to be included under assets item C (investments) must be included at their current value calculated in accordance with paragraphs 25 and 26.

(2) Investments falling to be included under assets item D (assets held to cover linked liabilities) must be shown at their current value calculated in accordance with paragraphs 25 and 26.

**23.**—(1) Intangible assets other than goodwill may be shown at their current cost.

(2) Assets falling to be included under assets items F.I (tangible assets) and F.IV (own shares) in the balance sheet format may be shown at their current value calculated in accordance with paragraphs 25 and 26 or at their current cost.

(3) Assets falling to be included under assets item F.II (stocks) may be shown at current cost.

#### Alternative valuation of fixed-income securities

**24.**—(1) This paragraph applies to debt securities and other fixed-income securities shown as assets under assets items C.II (investments in group undertakings and participating interests) and C.III (other financial investments).

(2) Securities to which this paragraph applies may either be valued in accordance with paragraph 22 or their amortised value may be shown in the balance sheet, in which case the provisions of this paragraph apply.

(3) Subject to sub-paragraph (4), where the purchase price of securities to which this paragraph applies exceeds the amount repayable at maturity, the amount of the difference—

- (a) must be charged to the profit and loss account, and
- (b) must be shown separately in the balance sheet or in the notes to the accounts.

(4) The amount of the difference referred to in sub-paragraph (3) may be written off in instalments so that it is completely written off when the securities are repaid, in which case there must be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (less the aggregate amount written off) and the amount repayable at maturity.

(5) Where the purchase price of securities to which this paragraph applies is less than the amount repayable at maturity, the amount of the difference must be released to income in instalments over the period remaining until repayment, in which case there must be shown separately in the balance sheet or in the notes to the accounts the difference between the purchase price (plus the aggregate amount released to income) and the amount repayable at maturity.

(6) Both the purchase price and the current value of securities valued in accordance with this paragraph must be disclosed in the notes to the accounts.

(7) Where securities to which this paragraph applies which are not valued in accordance with paragraph 22 are sold before maturity, and the proceeds are used to purchase other securities to which this paragraph applies, the difference between the proceeds of sale and their book value may be spread uniformly over the period remaining until the maturity of the original investment.

### **Meaning of “current value”**

**25.**—(1) Subject to sub-paragraph (5), in the case of investments other than land and buildings, current value means market value determined in accordance with this paragraph.

(2) In the case of listed investments, market value means the value on the balance sheet date or, when the balance sheet date is not a stock exchange trading day, on the last stock exchange trading day before that date.

(3) Where a market exists for unlisted investments, market value means the average price at which such investments were traded on the balance sheet date or, when the balance sheet date is not a trading day, on the last trading day before that date.

(4) Where, on the date on which the accounts are drawn up, listed or unlisted investments have been sold or are to be sold within the short term, the market value must be reduced by the actual or estimated realisation costs.

(5) Except where the equity method of accounting is applied, all investments other than those referred to in sub-paragraphs (2) and (3) must be valued on a basis which has prudent regard to the likely realisable value.

**26.**—(1) In the case of land and buildings, current value means the market value on the date of valuation, where relevant reduced as provided in sub-paragraphs (4) and (5).

(2) Market value means the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of the sale.

(3) The market value must be determined through the separate valuation of each land and buildings item, carried out at least every five years in accordance with generally recognised methods of valuation.

(4) Where the value of any land and buildings item has diminished since the preceding valuation under sub-paragraph (3), an appropriate value adjustment must be made.

(5) The lower value arrived at under sub-paragraph (4) must not be increased in subsequent balance sheets unless such increase results from a new determination of market value arrived at in accordance with sub-paragraphs (2) and (3).

(6) Where, on the date on which the accounts are drawn up, land and buildings have been sold or are to be sold within the short term, the value arrived at in accordance with sub-paragraphs (2) and (4) must be reduced by the actual or estimated realisation costs.

(7) Where it is impossible to determine the market value of a land and buildings item, the value arrived at on the basis of the principle of purchase price or production cost is deemed to be its current value.

## **Application of the depreciation rules**

27.—(1) Where—

- (a) the value of any asset of a company is determined in accordance with paragraph 22 or 23, and
- (b) in the case of a determination under paragraph 22, the asset falls to be included under assets item C.I,

that value must be, or (as the case may require) must be the starting point for determining, the amount to be included in respect of that asset in the company's accounts, instead of its cost or any value previously so determined for that asset.

Paragraphs 36 to 41 and 43 apply accordingly in relation to any such asset with the substitution for any reference to its cost of a reference to the value most recently determined for that asset in accordance with paragraph 22 or 23 (as the case may be).

(2) The amount of any provision for depreciation required in the case of any asset by paragraph 37 or 38 as it applies by virtue of sub-paragraph (1) is referred to below in this paragraph as the adjusted amount, and the amount of any provision which would be required by that paragraph in the case of that asset according to the historical cost accounting rules is referred to as the historical cost amount.

(3) Where sub-paragraph (1) applies in the case of any asset the amount of any provision for depreciation in respect of that asset included in any item shown in the profit and loss account in respect of amounts written off assets of the description in question may be the historical cost amount instead of the adjusted amount, provided that the amount of any difference between the two is shown separately in the profit and loss account or in a note to the accounts.

## **Additional information to be provided**

28.—(1) This paragraph applies where the amounts to be included in respect of assets covered by any items shown in a company's accounts have been determined in accordance with paragraph 22 or 23.

(2) The 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) The purchase price of investments valued in accordance with paragraph 22 must be disclosed in the notes to the accounts.

(4) In the case of each balance sheet item valued in accordance with paragraph 23 either—

- (a) the comparable amounts determined according to the historical cost accounting rules (without any provision for depreciation or diminution in value), or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item,

must be shown separately in the balance sheet or in a note to the accounts.

(5) In sub-paragraph (4), references in relation to any item to the comparable amounts determined as there mentioned 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.

## **Revaluation reserve**

**29.**—(1) Subject to sub-paragraph (7) , with respect to any determination of the value of an asset of a company in accordance with paragraph 22 or 23, the amount of any profit or loss arising from that determination (after allowing, where appropriate, for any provisions for depreciation or diminution in value made otherwise than by reference to the value so determined and any adjustments of any such provisions made in the light of that determination) must be credited or (as the case may be) debited to a separate reserve (“the revaluation reserve”).

(2) The amount of the revaluation reserve must be shown in the company’s balance sheet under liabilities item A.III, but need not be shown under the name “revaluation reserve”.

(3) An amount may be transferred—

(a) from the revaluation reserve—

(i) to the profit and loss account, if the amount was previously charged to that account or represents realised profit, or

(ii) on capitalisation,

(b) to or from the revaluation reserve in respect of the taxation relating to any profit or loss credited or debited to the reserve.

The revaluation reserve must be reduced to the extent that the amounts transferred to it are no longer necessary for the purposes of the valuation method used.

(4) In sub-paragraph (3)(a)(ii) “capitalisation”, in relation to an amount standing to the credit of the revaluation reserve, means applying it in wholly or partly paying up unissued shares in the company to be allotted to members of the company as fully or partly paid shares.

(5) The revaluation reserve must not be reduced except as mentioned in this paragraph.

(6) The treatment for taxation purposes of amounts credited or debited to the revaluation reserve must be disclosed in a note to the accounts.

(7) This paragraph does not apply to the difference between the valuation of investments and their purchase price or previous valuation shown in the long-term business technical account or the non-technical account in accordance with note (9) on the profit and loss account format.

## **SECTION C**

### **VALUATION AT FAIR VALUE**

#### **Inclusion of financial instruments at fair value**

**30.**—(1) Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.

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

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

(b) they are derivatives, or

(c) they are financial instruments falling within paragraph (4).

(3) Except where they fall within paragraph (4), or 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, or
- (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) Financial instruments that, under international accounting standards adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

(5) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 31, sub-paragraph (1) does not apply to that financial instrument.

(6) In this paragraph—

“associated undertaking” has the meaning given by paragraph 19 of Schedule 6 to these Regulations; and

“joint venture” has the meaning given by paragraph 18 of that Schedule.

### **Determination of fair value**

**31.**—(1) The fair value of a financial instrument is its value 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.

### **Hedged items**

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

### **Other assets that may be included at fair value**

**33.**—(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

**34.**—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 30 or 32 or an asset is valued in accordance with paragraph 33.

(2) Notwithstanding paragraph 18 in this Part of this Schedule, 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

**35.**—(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 34(3) or (4).

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

## SECTION D

### HISTORICAL COST ACCOUNTING RULES

#### *Valuation of assets*

### General rules

**36.**—(1) The rules in this Section are "the historical cost accounting rules".

(2) Subject to any provision for depreciation or diminution in value made in accordance with paragraph 37 or 38, the amount to be included in respect of any asset in the balance sheet format is its cost.

**37.** In the case of any asset included under assets item B (intangible assets), C.I (land and buildings), F.I (tangible assets) or F.II (stocks) which has a limited useful economic life, the amount of—

- (a) its cost, or
- (b) where it is estimated that any such asset will have a residual value at the end of the period of its useful economic life, its cost less that estimated residual value,

must be reduced by provisions for depreciation calculated to write off that amount systematically over the period of the asset's useful economic life.



**38.**—(1) This paragraph applies to any asset included under assets item B (intangible assets), C (investments), F.I (tangible assets) or F.IV (own shares).

(2) Where an asset to which this paragraph applies has diminished in value, provisions for diminution in value may be made in respect of it and the amount to be included in respect of it may be reduced accordingly.

(3) Provisions for diminution in value must be made in respect of any asset to which this paragraph applies if the reduction in its value is expected to be permanent (whether its useful economic life is limited or not), and the amount to be included in respect of it must be reduced accordingly.

(4) Any provisions made under sub-paragraph (2) or (3) which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

**39.**—(1) Where the reasons for which any provision was made in accordance with paragraph 38 have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

(2) Any amounts written back in accordance with sub-paragraph (1) which are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.

**40.**—(1) This paragraph applies to assets included under assets items E.I, II and III (debtors) and F.III (cash at bank and in hand) in the balance sheet.

(2) If the net realisable value of an asset to which this paragraph applies is lower than its cost the amount to be included in respect of that asset is the net realisable value.

(3) Where the reasons for which any provision for diminution in value was made in accordance with sub-paragraph (2) have ceased to apply to any extent, that provision must be written back to the extent that it is no longer necessary.

### **Development costs**

**41.**—(1) Notwithstanding that amounts representing “development costs” may be included under assets item B (intangible assets) in the balance sheet format, an amount may only be included in a company’s balance sheet in respect of development costs in special circumstances.

(2) If any amount is included in a company’s balance sheet in respect of development costs the following information must be given in a note to the accounts—

- (a) the period over which the amount of those costs originally capitalised is being or is to be written off, and
- (b) the reasons for capitalising the development costs in question.

### **Goodwill**

**42.**—(1) The application of paragraphs 36 to 39 in relation to goodwill (in any case where goodwill is treated as an asset) is subject to the following.

(2) Subject to sub-paragraph (3), the amount of the consideration for any goodwill acquired by a company must be reduced by provisions for depreciation calculated to write off that amount systematically over a period chosen by the directors of the company.

(3) The period chosen must not exceed the useful economic life of the goodwill in question.

(4) In any case where any goodwill acquired by a company is included as an asset in the company’s balance sheet, there must be disclosed in a note to the accounts—

- (a) the period chosen for writing off the consideration for that goodwill, and
- (b) the reasons for choosing that period.

*Miscellaneous and supplementary provisions*

**Excess of money owed over value received as an asset item**

**43.**—(1) Where the amount repayable on any debt owed by a company is greater than the value of the consideration received in the transaction giving rise to the debt, the amount of the difference may be treated as an asset.

(2) Where any such amount is so treated—

- (a) it must be written off by reasonable amounts each year and must be completely written off before repayment of the debt, and
- (b) if the current amount is not shown as a separate item in the company's balance sheet, it must be disclosed in a note to the accounts.

**Assets included at a fixed amount**

**44.**—(1) Subject to sub-paragraph (2), assets which fall to be included under assets item F.I (tangible assets) in the balance sheet format may be included at a fixed quantity and value.

(2) Sub-paragraph (1) applies to assets of a kind which are constantly being replaced where—

- (a) their overall value is not material to assessing the company's state of affairs, and
- (b) their quantity, value and composition are not subject to material variation.

**Determination of cost**

**45.**—(1) The cost of an asset that has been acquired by the company is to be determined by adding to the actual price paid any expenses incidental to its acquisition.

(2) The cost of an asset constructed by the company is to be determined by adding to the purchase price of the raw materials and consumables used the amount of the costs incurred by the company which are directly attributable to the construction of that asset.

(3) In addition, there may be included in the cost of an asset constructed by the company—

- (a) a reasonable proportion of the costs incurred by the company which are only indirectly attributable to the construction of that asset, but only to the extent that they relate to the period of construction, and
- (b) interest on capital borrowed to finance the construction of that asset, to the extent that it accrues in respect of the period of construction,

provided, however, in a case within paragraph (b), that the inclusion of the interest in determining the cost of that asset and the amount of the interest so included is disclosed in a note to the accounts.

**46.**—(1) The cost of any assets which are fungible assets may be determined by the application of any of the methods mentioned in sub-paragraph (2) in relation to any such assets of the same class, provided that the method chosen is one which appears to the directors to be appropriate in the circumstances of the company.

(2) Those methods are—

- (a) the method known as "first in, first out" (FIFO),
- (b) the method known as "last in, first out" (LIFO),
- (c) a weighted average price, and
- (d) any other method similar to any of the methods mentioned above.

(3) Where in the case of any company—

- (a) the cost of assets falling to be included under any item shown in the company's balance sheet has been determined by the application of any method permitted by this paragraph, and
- (b) the amount shown in respect of that item differs materially from the relevant alternative amount given below in this paragraph,

the amount of that difference must be disclosed in a note to the accounts.

(4) Subject to sub-paragraph (5), for the purposes of sub-paragraph (3)(b), the relevant alternative amount, in relation to any item shown in a company's balance sheet, is the amount which would have been shown in respect of that item if assets of any class included under that item at an amount determined by any method permitted by this paragraph had instead been included at their replacement cost as at the balance sheet date.

(5) The relevant alternative amount may be determined by reference to the most recent actual purchase price before the balance sheet date of assets of any class included under the item in question instead of by reference to their replacement cost as at that date, but only if the former appears to the directors of the company to constitute the more appropriate standard of comparison in the case of assets of that class.

#### **Substitution of original amount where price or cost unknown**

**47.**—(1) This paragraph applies where—

- (a) there is no record of the purchase price of any asset acquired by a company or of any price, expenses or costs relevant for determining its cost in accordance with paragraph 45, or
- (b) any such record cannot be obtained without unreasonable expense or delay.

(2) In such a case, the cost of the asset must be taken, for the purposes of paragraphs 36 to 42, to be the value ascribed to it in the earliest available record of its value made on or after its acquisition by the company.

### SECTION E

#### RULES FOR DETERMINING PROVISIONS

##### **Preliminary**

**48.** Provisions which are to be shown in a company's accounts are to be determined in accordance with this Section.

##### **Technical provisions**

**49.** The amount of technical provisions must at all times be sufficient to cover any liabilities arising out of insurance contracts as far as can reasonably be foreseen.

##### **Provision for unearned premiums**

**50.**—(1) The provision for unearned premiums must in principle be computed separately for each insurance contract, save that statistical methods (and in particular proportional and flat rate methods) may be used where they may be expected to give approximately the same results as individual calculations.

(2) Where the pattern of risk varies over the life of a contract, this must be taken into account in the calculation methods.

### **Provision for unexpired risks**

**51.** The provision for unexpired risks (as defined in paragraph 91) must be computed on the basis of claims and administrative expenses likely to arise after the end of the financial year from contracts concluded before that date, in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

### **Long-term business provision**

**52.—**(1) The long-term business provision must in principle be computed separately for each long-term contract, save that statistical or mathematical methods may be used where they may be expected to give approximately the same results as individual calculations.

(2) A summary of the principal assumptions in making the provision under sub-paragraph (1) must be given in the notes to the accounts.

(3) The computation must be made annually by a Fellow of the Institute or Faculty of Actuaries on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in Directive [2002/83/EC](#) of the European Parliament and of the Council of 5th November 2002 concerning life assurance(14).

### *Provisions for claims outstanding*

### **General business**

**53.—**(1) A provision must in principle be computed separately for each claim on the basis of the costs still expected to arise, save that statistical methods may be used if they result in an adequate provision having regard to the nature of the risks.

(2) This provision must also allow for claims incurred but not reported by the balance sheet date, the amount of the allowance being determined having regard to past experience as to the number and magnitude of claims reported after previous balance sheet dates.

(3) All claims settlement costs (whether direct or indirect) must be included in the calculation of the provision.

(4) Recoverable amounts arising out of subrogation or salvage must be estimated on a prudent basis and either deducted from the provision for claims outstanding (in which case if the amounts are material they must be shown in the notes to the accounts) or shown as assets.

(5) In sub-paragraph (4), “subrogation” means the acquisition of the rights of policy holders with respect to third parties, and “salvage” means the acquisition of the legal ownership of insured property.

(6) Where benefits resulting from a claim must be paid in the form of annuity, the amounts to be set aside for that purpose must be calculated by recognised actuarial methods, and paragraph 54 does not apply to such calculations.

(7) Implicit discounting or deductions, whether resulting from the placing of a current value on a provision for an outstanding claim which is expected to be settled later at a higher figure or otherwise effected, is prohibited.

**54.—**(1) Explicit discounting or deductions to take account of investment income is permitted, subject to the following conditions—

- (a) the expected average interval between the date for the settlement of claims being discounted and the accounting date must be at least four years;

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(14) O.J. L345 of 19th December 2002, p.1.

- (b) the discounting or deductions must be effected on a recognised prudential basis;
  - (c) when calculating the total cost of settling claims, the company must take account of all factors that could cause increases in that cost;
  - (d) the company must have adequate data at its disposal to construct a reliable model of the rate of claims settlements;
  - (e) the rate of interest used for the calculation of present values must not exceed a rate prudently estimated to be earned by assets of the company which are appropriate in magnitude and nature to cover the provisions for claims being discounted during the period necessary for the payment of such claims, and must not exceed either—
    - (i) a rate justified by the performance of such assets over the preceding five years, or
    - (ii) a rate justified by the performance of such assets during the year preceding the balance sheet date.
- (2) When discounting or effecting deductions, the company must, in the notes to the accounts, disclose—
- (a) the total amount of provisions before discounting or deductions,
  - (b) the categories of claims which are discounted or from which deductions have been made,
  - (c) for each category of claims, the methods used, in particular the rates used for the estimates referred to in sub-paragraph (1)(d) and (e), and the criteria adopted for estimating the period that will elapse before the claims are settled.

### **Long-term business**

**55.** The amount of the provision for claims must be equal to the sums due to beneficiaries, plus the costs of settling claims.

### **Equalisation reserves**

**56.** The amount of any equalisation reserve maintained in respect of general business by the company, in accordance with the rules in section 1.4 of the Prudential Sourcebook for Insurers made by the Financial Services Authority under Part 10 of the Financial Services and Markets Act 2000<sup>(15)</sup>, must be determined in accordance with such rules.

### **Accounting on a non-annual basis**

**57.—**(1) Either of the methods described in paragraphs 58 and 59 may be applied where, because of the nature of the class or type of insurance in question, information about premiums receivable or claims payable (or both) for the underwriting years is insufficient when the accounts are drawn up for reliable estimates to be made.

(2) The use of either of the methods referred to in sub-paragraph (1) must be disclosed in the notes to the accounts together with the reasons for adopting it.

(3) Where one of the methods referred to in sub-paragraph (1) is adopted, it must be applied systematically in successive years unless circumstances justify a change.

(4) In the event of a change in the method applied, the effect on the assets, liabilities, financial position and profit or loss must be stated in the notes to the accounts.

(5) For the purposes of this paragraph and paragraph 58, “underwriting year” means the financial year in which the insurance contracts in the class or type of insurance in question commenced.

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<sup>(15)</sup> FSA 2006/42.

**58.**—(1) The excess of the premiums written over the claims and expenses paid in respect of contracts commencing in the underwriting year shall form a technical provision included in the technical provision for claims outstanding shown in the balance sheet under liabilities item C.3.

(2) The provision may also be computed on the basis of a given percentage of the premiums written where such a method is appropriate for the type of risk insured.

(3) If necessary, the amount of this technical provision must be increased to make it sufficient to meet present and future obligations.

(4) The technical provision constituted under this paragraph must be replaced by a provision for claims outstanding estimated in accordance with paragraph 53 as soon as sufficient information has been gathered and not later than the end of the third year following the underwriting year.

(5) The length of time that elapses before a provision for claims outstanding is constituted in accordance with sub-paragraph (4) must be disclosed in the notes to the accounts.

**59.**—(1) The figures shown in the technical account or in certain items within it must relate to a year which wholly or partly precedes the financial year (but by no more than 12 months).

(2) The amounts of the technical provisions shown in the accounts must if necessary be increased to make them sufficient to meet present and future obligations.

(3) The length of time by which the earlier year to which the figures relate precedes the financial year and the magnitude of the transactions concerned must be disclosed in the notes to the accounts.

## PART 3

### NOTES TO THE ACCOUNTS

#### **Preliminary**

**60.** Any information required in the case of any company by the following provisions of this Part of this Schedule must (if not given in the company's accounts) be given by way of a note to the accounts.

#### *General*

#### **Disclosure of accounting policies**

**61.** The accounting policies adopted by the company in determining the amounts to be included in respect of items shown in the balance sheet and in determining the profit or loss of the company must be stated (including such policies with respect to the depreciation and diminution in value of assets).

**62.** It must be stated whether the accounts have been prepared in accordance with applicable accounting standards and particulars of any material departure from those standards and the reasons for it must be given.

#### **Sums denominated in foreign currencies**

**63.** Where any sums originally denominated in foreign currencies have been brought into account under any items shown in the balance sheet or profit and loss account format, the basis on which those sums have been translated into sterling (or the currency in which the accounts are drawn up) must be stated.

## Reserves and dividends

64. 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).

### *Information supplementing the balance sheet*

## Share capital and debentures

65.—(1) Where shares of more than one class have been allotted, the number and aggregate nominal value of shares of each class allotted must be given.

(2) In the case of any part of the allotted share capital that consists of redeemable shares, the following information must be given—

- (a) the earliest and latest dates on which the company has power to redeem those shares,
- (b) whether those shares must be redeemed in any event or are liable to be redeemed at the option of the company or of the shareholder, and
- (c) whether any (and, if so, what) premium is payable on redemption.

66. If the company has allotted any shares during the financial year, the following information must be given—

- (a) the classes of shares allotted, and
- (b) as respects each class of shares, the number allotted, their aggregate nominal value and the consideration received by the company for the allotment.

67.—(1) With respect to any contingent right to the allotment of shares in the company the following particulars must be given—

- (a) the number, description and amount of the shares in relation to which the right is exercisable,
- (b) the period during which it is exercisable, and
- (c) the price to be paid for the shares allotted.

(2) In sub-paragraph (1) “contingent right to the allotment of shares” means any option to subscribe for shares and any other right to require the allotment of shares to any person whether arising on the conversion into shares of securities of any other description or otherwise.

68.—(1) If the company has issued any debentures during the financial year to which the accounts relate, the following information must be given—

- (a) the classes of debentures issued, and
- (b) as respects each class of debentures, the amount issued and the consideration received by the company for the issue.

(2) Where any of the company’s debentures are held by a nominee of or trustee for the company, the nominal amount of the debentures and the amount at which they are stated in the accounting

records kept by the company in accordance with section 386 of the 2006 Act (duty to keep accounting records) must be stated.

### Assets

**69.**—(1) In respect of any assets of the company included in assets items B (intangible assets), C.I (land and buildings) and C.II (investments in group undertakings and participating interests) in the company's balance sheet the following information must be given by reference to each such item—

- (a) the appropriate amounts in respect of those assets included in the item as at the date of the beginning of the financial year and as at the balance sheet date respectively,
- (b) the effect on any amount included in assets item B in respect of those assets of—
  - (i) any determination during that year of the value to be ascribed to any of those assets in accordance with paragraph 23,
  - (ii) acquisitions during that year of any assets,
  - (iii) disposals during that year of any assets, and
  - (iv) any transfers of assets of the company to and from the item during that year.

(2) The reference in sub-paragraph (1)(a) to the appropriate amounts in respect of any assets (included in an assets item) as at any date there mentioned is a reference to amounts representing the aggregate amounts determined, as at that date, in respect of assets falling to be included under the item on either of the following bases—

- (a) on the basis of cost (determined in accordance with paragraphs 45 and 46), or
- (b) on any basis permitted by paragraph 22 or 23 ,

(leaving out of account in either case any provisions for depreciation or diminution in value).

(3) In addition, in respect of any assets of the company included in any assets item in the company's balance sheet, there must be stated (by reference to each such item)—

- (a) the cumulative amount of provisions for depreciation or diminution in value of those assets included under the item as at each date mentioned in sub-paragraph (1)(a),
- (b) the amount of any such provisions made in respect of the financial year,
- (c) the amount of any adjustments made in respect of any such provisions during that year in consequence of the disposal of any of those assets, and
- (d) the amount of any other adjustments made in respect of any such provisions during that year.

**70.** Where any assets of the company (other than listed investments) are included under any item shown in the company's balance sheet at an amount determined on any basis mentioned in paragraph 22 or 23, the following information must be given—

- (a) the years (so far as they are known to the directors) in which the assets were severally valued and the several values, and
- (b) in the case of assets that have been valued during the financial year, the names of the persons who valued them or particulars of their qualifications for doing so and (whichever is stated) the bases of valuation used by them.

**71.** In relation to any amount which is included under assets item C.I (land and buildings) there must be stated—

- (a) how much of that amount is ascribable to land of freehold tenure and how much to land of leasehold tenure, and
- (b) how much of the amount ascribable to land of leasehold tenure is ascribable to land held on long lease and how much to land held on short lease.



## Investments

**72.** In respect of the amount of each item which is shown in the company's balance sheet under assets item C (investments) there must be stated how much of that amount is ascribable to listed investments.

## Information about fair value of assets and liabilities

**73.**—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 30 or 32.

(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) the significant assumptions underlying the valuation models and techniques used, where the fair value of the instruments has been determined in accordance with paragraph 31(4),

(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.

**74.** 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 31, and

(b) the extent and nature of the derivatives.

**75.**—(1) This paragraph applies if—

(a) the company has financial fixed assets that could be included at fair value by virtue of paragraph 30,

(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 38(2) of this 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.

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

**76.**—(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 33.

(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 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.

### **Reserves and provisions**

**77.**—(1) This paragraph applies where any amount is transferred—

- (a) to or from any reserves,
- (b) to any provisions for other risks, or
- (c) from any provisions for other risks otherwise than for the purpose for which the provision was established,

and the reserves or provisions are or would but for paragraph 3(1) be shown as separate items in the company's balance sheet.

(2) The following information must be given in respect of the aggregate of reserves or provisions included in the same item—

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

(3) Particulars must be given of each provision included in liabilities item E.3 (other provisions) in the company's balance sheet in any case where the amount of that provision is material.

### **Provision for taxation**

**78.** The amount of any provision for deferred taxation must be stated separately from the amount of any provision for other taxation.

### Details of indebtedness

**79.**—(1) In respect of each item shown under “creditors” in the company’s balance sheet there must be stated the aggregate of the following amounts—

- (a) the amount of any debts included under that item which are payable or repayable otherwise than by instalments and fall due for payment or repayment after the end of the period of five years beginning with the day next following the end of the financial year, and
- (b) in the case of any debts so included which are payable or repayable by instalments, the amount of any instalments which fall due for payment after the end of that period.

(2) Subject to sub-paragraph (3), in relation to each debt falling to be taken into account under sub-paragraph (1), the terms of payment or repayment and the rate of any interest payable on the debt must be stated.

(3) If the number of debts is such that, in the opinion of the directors, compliance with sub-paragraph (2) would result in a statement of excessive length, it is sufficient to give a general indication of the terms of payment or repayment and the rates of any interest payable on the debts.

(4) In respect of each item shown under “creditors” in the company’s balance sheet there must be stated—

- (a) the aggregate amount of any debts included under that item in respect of which any security has been given by the company, and
- (b) an indication of the nature of the securities so given.

(5) References above in this paragraph to an item shown under “creditors” in the company’s balance sheet include references, where amounts falling due to creditors within one year and after more than one year are distinguished in the balance sheet—

- (a) in a case within sub-paragraph (1), to an item shown under the latter of those categories, and
- (b) in a case within sub-paragraph (4), to an item shown under either of those categories.

References to items shown under “creditors” include references to items which would but for paragraph 3(1)(b) be shown under that heading.

**80.** If any fixed cumulative dividends on the company’s shares are in arrear, there must be stated—

- (a) the amount of the arrears, and
- (b) the period for which the dividends or, if there is more than one class, each class of them are in arrear.

### Guarantees and other financial commitments

**81.**—(1) Particulars must be given of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.

(2) The following information must be given with respect to any other contingent liability not provided for (other than a contingent liability arising out of an insurance contract)—

- (a) the amount or estimated amount of that liability,
- (b) its legal nature, and
- (c) whether any valuable security has been provided by the company in connection with that liability and if so, what.

(3) There must be stated, where practicable, the aggregate amount or estimated amount of contracts for capital expenditure, so far as not provided for.

(4) Particulars must be given of—

(a) any pension commitments included under any provision shown in the company's balance sheet, and

(b) any such commitments for which no provision has been made,

and where any such commitment relates wholly or partly to pensions payable to past directors of the company separate particulars must be given of that commitment so far as it relates to such pensions.

(5) Particulars must also be given of any other financial commitments, other than commitments arising out of insurance contracts, that—

(a) have not been provided for, and

(b) are relevant to assessing the company's state of affairs.

(6) Commitments within any of the preceding sub-paragraphs undertaken on behalf of or for the benefit of—

(a) any parent undertaking or fellow subsidiary undertaking, or

(b) any subsidiary undertaking of the company,

must be stated separately from the other commitments within that sub-paragraph, and commitments within paragraph (a) must also be stated separately from those within paragraph (b).

### **Miscellaneous matters**

**82.**—(1) Particulars must be given of any case where the cost of any asset is for the first time determined under paragraph 47.

(2) Where any outstanding loans made under the authority of section 682(2)(b), (c) or (d) of the 2006 Act (various cases of financial assistance by a company for purchase of its own shares) are included under any item shown in the company's balance sheet, the aggregate amount of those loans must be disclosed for each item in question.

### *Information supplementing the profit and loss account(16)*

### **Separate statement of certain items of income and expenditure**

**83.**—(1) Subject to sub-paragraph (2), there must be stated the amount of the interest on or any similar charges in respect of—

(a) bank loans and overdrafts, and

(b) loans of any other kind made to the company.

(2) Sub-paragraph (1) does not apply to interest or charges on loans to the company from group undertakings, but, with that exception, it applies to interest or charges on all loans, whether made on the security of debentures or not.

### **Particulars of tax**

**84.**—(1) Particulars must be given of any special circumstances which affect liability in respect of taxation of profits, income or capital gains for the financial year or liability in respect of taxation of profits, income or capital gains for succeeding financial years.

(2) The following amounts must be stated—

(a) the amount of the charge for United Kingdom corporation tax,

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(16) See regulation 6(2) for exemption for companies falling within section 408 of the 2006 Act (individual profit and loss account where group accounts prepared).

- (b) if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief,
- (c) the amount of the charge for United Kingdom income tax, and
- (d) the amount of the charge for taxation imposed outside the United Kingdom of profits, income and (so far as charged to revenue) capital gains.

Those amounts must be stated separately in respect of each of the amounts which is shown under the following items in the profit and loss account, that is to say item III.9 (tax on profit or loss on ordinary activities) and item III.14 (tax on extraordinary profit or loss).

### **Particulars of business**

**85.**—(1) As regards general business a company must disclose—

- (a) gross premiums written,
- (b) gross premiums earned,
- (c) gross claims incurred,
- (d) gross operating expenses, and
- (e) the reinsurance balance.

(2) The amounts required to be disclosed by sub-paragraph (1) must be broken down between direct insurance and reinsurance acceptances, if reinsurance acceptances amount to 10 per cent or more of gross premiums written.

(3) Subject to sub-paragraph (4), the amounts required to be disclosed by sub-paragraphs (1) and (2) with respect to direct insurance must be further broken down into the following groups of classes—

- (a) accident and health,
- (b) motor (third party liability),
- (c) motor (other classes),
- (d) marine, aviation and transport,
- (e) fire and other damage to property,
- (f) third-party liability,
- (g) credit and suretyship,
- (h) legal expenses,
- (i) assistance, and
- (j) miscellaneous,

where the amount of the gross premiums written in direct insurance for each such group exceeds 10 million Euros.

(4) The company must in any event disclose the amounts relating to the three largest groups of classes in its business.

**86.**—(1) As regards long-term business, the company must disclose—

- (a) gross premiums written, and
- (b) the reinsurance balance.

(2) Subject to sub-paragraph (3)—

- (a) gross premiums written must be broken down between those written by way of direct insurance and those written by way of reinsurance, and

- (b) gross premiums written by way of direct insurance must be broken down—
  - (i) between individual premiums and premiums under group contracts,
  - (ii) between periodic premiums and single premiums, and
  - (iii) between premiums from non-participating contracts, premiums from participating contracts and premiums from contracts where the investment risk is borne by policyholders.

(3) Disclosure of any amount referred to in sub-paragraph (2)(a) or (2)(b)(i), (ii) or (iii) is not required if it does not exceed 10 per cent of the gross premiums written or (as the case may be) of the gross premiums written by way of direct insurance.

**87.**—(1) Subject to sub-paragraph (2), there must be disclosed as regards both general and long-term business the total gross direct insurance premiums resulting from contracts concluded by the company—

- (a) in the member State of its head office,
- (b) in the other member States, and
- (c) in other countries.

(2) Disclosure of any amount referred to in sub-paragraph (1) is not required if it does not exceed 5 per cent of total gross premiums.

### **Commissions**

**88.** There must be disclosed the total amount of commissions for direct insurance business accounted for in the financial year, including acquisition, renewal, collection and portfolio management commissions.

### **Miscellaneous matters**

**89.**—(1) Where any amount relating to any preceding financial year is included in any item in the profit and loss account, the effect must be stated.

(2) Particulars must be given of any extraordinary income or charges arising in the financial year.

(3) The effect must be stated of any transactions that are exceptional by virtue of size or incidence though they fall within the ordinary activities of the company.

### **Related party transactions**

**90.**—(1) Particulars may be given of transactions which the company has entered into with related parties, and must be given if such transactions are material and have not been concluded under normal market conditions.

(2) The particulars of transactions required to be disclosed by sub-paragraph (1) must include—

- (a) the amount of such transactions,
- (b) the nature of the related party relationship, and
- (c) other information about the transactions necessary for an understanding of the financial position of the company.

(3) Information about individual transactions may be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the company.

(4) Particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is a party to the transaction is wholly-owned by such a member.

(5) In this paragraph, “related party” has the same meaning as in international accounting standards.

## PART 4

### INTERPRETATION OF THIS SCHEDULE

#### Definitions for this Schedule

91. The following definitions apply for the purposes of this Schedule and its interpretation—

“general business” means business which consists of effecting or carrying out contracts of general insurance;

“long-term business” means business which consists of effecting or carrying out contracts of long-term insurance;

“long-term fund” means the fund or funds maintained by a company in respect of its long-term business in accordance with rule 1.5.22 in the Prudential Sourcebook for Insurers made by the Financial Services Authority under Part 10 of the Financial Services and Markets Act 2000(17);

“policyholder” has the meaning given by article 3 of the Financial Services and Markets Act 2000 (Meaning of “Policy” and “Policyholder”) Order 2001(18);

“provision for unexpired risks” means the amount set aside in addition to unearned premiums in respect of risks to be borne by the company after the end of the financial year, in order to provide for all claims and expenses in connection with insurance contracts in force in excess of the related unearned premiums and any premiums receivable on those contracts.

#### SCHEDULE 4

Regulation 7

### INFORMATION ON RELATED UNDERTAKINGS REQUIRED WHETHER PREPARING COMPANIES ACT OR IAS ACCOUNTS

## PART 1

### PROVISIONS APPLYING TO ALL COMPANIES

#### Subsidiary undertakings

1.—(1) The following information must be given where at the end of the financial year the company has subsidiary undertakings.

(2) The name of each subsidiary undertaking must be stated.

(3) There must be stated with respect to each subsidiary undertaking—

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(17) FSA 2006/42.

(18) S.I. 2001/2361.

- (a) if it is incorporated outside the United Kingdom, the country in which it is incorporated,
- (b) if it is unincorporated, the address of its principal place of business.

### **Financial information about subsidiary undertakings**

2.—(1) There must be disclosed with respect to each subsidiary undertaking not included in consolidated accounts by the company—

- (a) the aggregate amount of its capital and reserves as at the end of its relevant financial year, and
- (b) its profit or loss for that year.

(2) That information need not be given if the company is exempt by virtue of section 400 or 401 of the 2006 Act from the requirement to prepare group accounts (parent company included in accounts of larger group).

(3) That information need not be given if the company's investment in the subsidiary undertaking is included in the company's accounts by way of the equity method of valuation.

(4) That information need not be given if—

- (a) the subsidiary undertaking is not required by any provision of the 2006 Act to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
- (b) the company's holding is less than 50% of the nominal value of the shares in the undertaking.

(5) Information otherwise required by this paragraph need not be given if it is not material.

(6) For the purposes of this paragraph the "relevant financial year" of a subsidiary undertaking is—

- (a) if its financial year ends with that of the company, that year, and
- (b) if not, its financial year ending last before the end of the company's financial year.

### **Shares and debentures of company held by subsidiary undertakings**

3.—(1) The number, description and amount of the shares in the company held by or on behalf of its subsidiary undertakings must be disclosed.

(2) Sub-paragraph (1) does not apply in relation to shares in the case of which the subsidiary undertaking is concerned as personal representative or, subject as follows, as trustee.

(3) The exception for shares in relation to which the subsidiary undertaking is concerned as trustee does not apply if the company, or any of its subsidiary undertakings, is beneficially interested under the trust, otherwise than by way of security only for the purposes of a transaction entered into by it in the ordinary course of a business which includes the lending of money.

(4) Part 5 of this Schedule has effect for the interpretation of the reference in sub-paragraph (3) to a beneficial interest under a trust.

### **Significant holdings in undertakings other than subsidiary undertakings**

4.—(1) The information required by paragraphs 5 and 6 must be given where at the end of the financial year the company has a significant holding in an undertaking which is not a subsidiary undertaking of the company, and which does not fall within paragraph 18 (joint ventures) or 19 (associated undertakings).

(2) A holding is significant for this purpose if—

- (a) it amounts to 20% or more of the nominal value of any class of shares in the undertaking, or



- (b) the amount of the holding (as stated or included in the company's individual accounts) exceeds one-fifth of the amount (as so stated) of the company's assets.

5.—(1) The name of the undertaking must be stated.

(2) There must be stated—

- (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated,
- (b) if it is unincorporated, the address of its principal place of business.

(3) There must also be stated—

- (a) the identity of each class of shares in the undertaking held by the company, and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

6.—(1) Subject to paragraph 14, there must also be stated—

- (a) the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and
- (b) its profit or loss for that year.

(2) That information need not be given in respect of an undertaking if—

- (a) the undertaking is not required by any provision of the 2006 Act to deliver a copy of its balance sheet for its relevant financial year and does not otherwise publish that balance sheet in the United Kingdom or elsewhere, and
- (b) the company's holding is less than 50% of the nominal value of the shares in the undertaking.

(3) Information otherwise required by this paragraph need not be given if it is not material.

(4) For the purposes of this paragraph the “relevant financial year” of an undertaking is—

- (a) if its financial year ends with that of the company, that year, and
- (b) if not, its financial year ending last before the end of the company's financial year.

### **Membership of certain undertakings**

7.—(1) The information required by this paragraph must be given where at the end of the financial year the company is a member of a qualifying undertaking.

(2) There must be stated—

- (a) the name and legal form of the undertaking, and
- (b) the address of the undertaking's registered office (whether in or outside the United Kingdom) or, if it does not have such an office, its head office (whether in or outside the United Kingdom).

(3) Where the undertaking is a qualifying partnership there must also be stated either—

- (a) that a copy of the latest accounts of the undertaking has been or is to be appended to the copy of the company's accounts sent to the registrar under section 444 of the 2006 Act, or
- (b) the name of at least one body corporate (which may be the company) in whose group accounts the undertaking has been or is to be dealt with on a consolidated basis.

(4) Information otherwise required by sub-paragraph (2) need not be given if it is not material.

(5) Information otherwise required by sub-paragraph (3)(b) need not be given if the notes to the company's accounts disclose that advantage has been taken of the exemption conferred by regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993(19).

(6) In this paragraph—

“dealt with on a consolidated basis”, “member” and “qualifying partnership” have the same meanings as in the Partnerships and Unlimited Companies (Accounts) Regulations 1993;

“qualifying undertaking” means—

- (a) a qualifying partnership, or
- (b) an unlimited company each of whose members is—
  - (i) a limited company,
  - (ii) another unlimited company each of whose members is a limited company, or
  - (iii) a Scottish partnership each of whose members is a limited company,

and references in this paragraph to a limited company, another unlimited company or a Scottish partnership include a comparable undertaking incorporated in or formed under the law of a country or territory outside the United Kingdom.

#### **Parent undertaking drawing up accounts for larger group**

**8.—**(1) Where the company is a subsidiary undertaking, the following information must be given with respect to the parent undertaking of—

- (a) the largest group of undertakings for which group accounts are drawn up and of which the company is a member, and
  - (b) the smallest such group of undertakings.
- (2) The name of the parent undertaking must be stated.
- (3) There must be stated—
- (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated,
  - (b) if it is unincorporated, the address of its principal place of business.

(4) If copies of the group accounts referred to in sub-paragraph (1) are available to the public, there must also be stated the addresses from which copies of the accounts can be obtained.

#### **Identification of ultimate parent company**

**9.—**(1) Where the company is a subsidiary undertaking, the following information must be given with respect to the company (if any) regarded by the directors as being the company's ultimate parent company.

- (2) The name of that company must be stated.
- (3) If that company is incorporated outside the United Kingdom, the country in which it is incorporated must be stated (if known to the directors).
- (4) In this paragraph “company” includes any body corporate.

## PART 2

### COMPANIES NOT REQUIRED TO PREPARE GROUP ACCOUNTS

#### **Reason for not preparing group accounts**

**10.**—(1) The reason why the company is not required to prepare group accounts must be stated.

(2) If the reason is that all the subsidiary undertakings of the company fall within the exclusions provided for in section 405 of the 2006 Act (Companies Act group accounts: subsidiary undertakings included in the consolidation), it must be stated with respect to each subsidiary undertaking which of those exclusions applies.

#### **Holdings in subsidiary undertakings**

**11.**—(1) There must be stated in relation to shares of each class held by the company in a subsidiary undertaking—

- (a) the identity of the class, and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

(2) The shares held by or on behalf of the company itself must be distinguished from those attributed to the company which are held by or on behalf of a subsidiary undertaking.

#### **Financial years of subsidiary undertakings**

**12.** Where—

- (a) disclosure is made under paragraph 2(1) with respect to a subsidiary undertaking, and
- (b) that undertaking's financial year does not end with that of the company,

there must be stated in relation to that undertaking the date on which its last financial year ended (last before the end of the company's financial year).

#### **Exemption from giving information about significant holdings in non-subsidiary undertakings**

**13.**—(1) The information otherwise required by paragraph 6 (significant holdings in undertakings other than subsidiary undertaking) need not be given if—

- (a) the company is exempt by virtue of section 400 or 401 of the 2006 Act from the requirement to prepare group accounts (parent company included in accounts of larger group), and
- (b) the investment of the company in all undertakings in which it has such a holding as is mentioned in sub-paragraph (1) is shown, in aggregate, in the notes to the accounts by way of the equity method of valuation.

#### **Construction of references to shares held by company**

**14.**—(1) References in Parts 1 and 2 of this Schedule to shares held by a company are to be construed as follows.

(2) For the purposes of paragraphs 2, 11 and 12 (information about subsidiary undertakings)—

- (a) there must be attributed to the company any shares held by a subsidiary undertaking, or by a person acting on behalf of the company or a subsidiary undertaking; but

- (b) there must be treated as not held by the company any shares held on behalf of a person other than the company or a subsidiary undertaking.
- (3) For the purposes of paragraphs 4 to 6 (information about undertakings other than subsidiary undertakings)—
  - (a) there must be attributed to the company shares held on its behalf by any person; but
  - (b) there must be treated as not held by a company shares held on behalf of a person other than the company.
- (4) For the purposes of any of those provisions, shares held by way of security must be treated as held by the person providing the security—
  - (a) where apart from the right to exercise them for the purpose of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in accordance with that person's instructions, and
  - (b) where the shares are held in connection with the granting of loans as part of normal business activities and apart from the right to exercise them for the purpose of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in that person's interests.

## PART 3

### COMPANIES REQUIRED TO PREPARE GROUP ACCOUNTS

#### **Introductory**

**15.** In this Part of this Schedule “the group” means the group consisting of the parent company and its subsidiary undertakings.

#### **Subsidiary undertakings**

**16.—(1)** In addition to the information required by paragraph 2, the following information must also be given with respect to the undertakings which are subsidiary undertakings of the parent company at the end of the financial year.

(2) It must be stated whether the subsidiary undertaking is included in the consolidation and, if it is not, the reasons for excluding it from consolidation must be given.

(3) It must be stated with respect to each subsidiary undertaking by virtue of which of the conditions specified in section 1162(2) or (4) of the 2006 Act it is a subsidiary undertaking of its immediate parent undertaking.

That information need not be given if the relevant condition is that specified in subsection (2)(a) of that section (holding of a majority of the voting rights) and the immediate parent undertaking holds the same proportion of the shares in the undertaking as it holds voting rights.

#### **Holdings in subsidiary undertakings**

**17.—(1)** The following information must be given with respect to the shares of a subsidiary undertaking held—

- (a) by the parent company, and
- (b) by the group,

and the information under paragraphs (a) and (b) must (if different) be shown separately.

(2) There must be stated—

- (a) the identity of each class of shares held, and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

### **Joint ventures**

**18.**—(1) The following information must be given where an undertaking is dealt with in the consolidated accounts by the method of proportional consolidation in accordance with paragraph 18 of Schedule 6 to these Regulations (joint ventures)—

- (a) the name of the undertaking,
- (b) the address of the principal place of business of the undertaking,
- (c) the factors on which joint management of the undertaking is based, and
- (d) the proportion of the capital of the undertaking held by undertakings included in the consolidation.

(2) Where the financial year of the undertaking did not end with that of the company, there must be stated the date on which a financial year of the undertaking last ended before that date.

### **Associated undertakings**

**19.**—(1) The following information must be given where an undertaking included in the consolidation has an interest in an associated undertaking.

- (2) The name of the associated undertaking must be stated.
- (3) There must be stated—
  - (a) if the undertaking is incorporated outside the United Kingdom, the country in which it is incorporated,
  - (b) if it is unincorporated, the address of its principal place of business.
- (4) The following information must be given with respect to the shares of the undertaking held—
  - (a) by the parent company, and
  - (b) by the group,

and the information under paragraphs (a) and (b) must be shown separately.

- (5) There must be stated—
  - (a) the identity of each class of shares held, and
  - (b) the proportion of the nominal value of the shares of that class represented by those shares.

(6) In this paragraph “associated undertaking” has the meaning given by paragraph 19 of Schedule 6 to these Regulations; and the information required by this paragraph must be given notwithstanding that paragraph 21(3) of that Schedule (materiality) applies in relation to the accounts themselves.

### **Requirement to give information about other significant holdings of parent company or group**

**20.**—(1) The information required by paragraphs 5 and 6 must also be given where at the end of the financial year the group has a significant holding in an undertaking which is not a subsidiary undertaking of the parent company and does not fall within paragraph 18 (joint ventures) or 19 (associated undertakings), as though the references to the company in those paragraphs were a reference to the group.

- (2) A holding is significant for this purpose if—
  - (a) it amounts to 20% or more of the nominal value of any class of shares in the undertaking, or

- (b) the amount of the holding (as stated or included in the group accounts) exceeds one-fifth of the amount of the group's assets (as so stated).
- (3) For the purposes of those paragraphs as applied to a group the "relevant financial year" of an outside undertaking is—
  - (a) if its financial year ends with that of the parent company, that year, and
  - (b) if not, its financial year ending last before the end of the parent company's financial year.

### **Group's membership of certain undertakings**

**21.** The information required by paragraph 7 must also be given where at the end of the financial year the group is a member of a qualifying undertaking.

### **Construction of references to shares held by parent company or group**

**22.**—(1) References in Parts 1 and 3 of this Schedule to shares held by that parent company or group are to be construed as follows.

(2) For the purposes of paragraphs 4 to 6, 17, 19(4) and (5) and 12 (information about holdings in subsidiary and other undertakings)—

- (a) there must be attributed to the parent company shares held on its behalf by any person; but
- (b) there must be treated as not held by the parent company shares held on behalf of a person other than the company.

(3) References to shares held by the group are to any shares held by or on behalf of the parent company or any of its subsidiary undertakings; but any shares held on behalf of a person other than the parent company or any of its subsidiary undertakings are not to be treated as held by the group.

(4) Shares held by way of security must be treated as held by the person providing the security—

- (a) where apart from the right to exercise them for the purpose of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in accordance with his instructions, and
- (b) where the shares are held in connection with the granting of loans as part of normal business activities and apart from the right to exercise them for the purpose of preserving the value of the security, or of realising it, the rights attached to the shares are exercisable only in his interests.

## **PART 4**

### **ADDITIONAL DISCLOSURES FOR BANKING COMPANIES AND GROUPS**

**23.**—(1) This paragraph applies where accounts are prepared in accordance with the special provisions of Schedules 2 and 6 relating to banking companies or groups.

(2) The information required by paragraph 5 of this Schedule, modified where applicable by paragraph 20 (information about significant holdings of the company or group in undertakings other than subsidiary undertakings) need only be given in respect of undertakings (otherwise falling within the class of undertakings in respect of which disclosure is required) in which the company or group has a significant holding amounting to 20 % or more of the nominal value of the shares in the undertaking.

In addition any information required by those paragraphs may be omitted if it is not material.

(3) Paragraphs 14(3) and (4) and 22(3) and (4) of this Schedule apply with necessary modifications for the purposes of this paragraph.

## PART 5

### INTERPRETATION OF REFERENCES TO “BENEFICIAL INTEREST”

#### **Residual interests under pension and employees’ share schemes**

**24.**—(1) Where shares in an undertaking are held on trust for the purposes of a pension scheme or an employees’ share scheme, there must be disregarded any residual interest which has not vested in possession, being an interest of the undertaking or any of its subsidiary undertakings.

(2) In this paragraph a “residual interest” means a right of the undertaking in question (the “residual beneficiary”) to receive any of the trust property in the event of—

- (a) all the liabilities arising under the scheme having been satisfied or provided for, or
- (b) the residual beneficiary ceasing to participate in the scheme, or
- (c) the trust property at any time exceeding what is necessary for satisfying the liabilities arising or expected to arise under the scheme.

(3) In sub-paragraph (2) references to a right include a right dependent on the exercise of a discretion vested by the scheme in the trustee or any other person; and references to liabilities arising under a scheme include liabilities that have resulted or may result from the exercise of any such discretion.

(4) For the purposes of this paragraph a residual interest vests in possession—

- (a) in a case within sub-paragraph (2)(a), on the occurrence of the event there mentioned, whether or not the amount of the property receivable pursuant to the right mentioned in that sub-paragraph is then ascertained,
- (b) in a case within sub-paragraph (2)(b) or (c), when the residual beneficiary becomes entitled to require the trustee to transfer to that beneficiary any of the property receivable pursuant to that right.

#### **Employer’s charges and other rights of recovery**

**25.**—(1) Where shares in an undertaking are held on trust there must be disregarded—

- (a) if the trust is for the purposes of a pension scheme, any such rights as are mentioned in sub-paragraph (2),
- (b) if the trust is for the purposes of an employees’ share scheme, any such rights as are mentioned in paragraph (a) of that sub-paragraph,

being rights of the undertaking or any of its subsidiary undertakings.

(2) The rights referred to are—

- (a) any charge or lien on, or set-off against, any benefit or other right or interest under the scheme for the purpose of enabling the employer or former employer of a member of the scheme to obtain the discharge of a monetary obligation due to him from the member, and
- (b) any right to receive from the trustee of the scheme, or as trustee of the scheme to retain, an amount that can be recovered or retained under section 61 of the Pension Schemes Act 1993<sup>(20)</sup> or section 57 of the Pension Schemes (Northern Ireland) Act 1993<sup>(21)</sup> (deduction of contributions equivalent premium from refund of scheme contributions) or otherwise as reimbursement or partial reimbursement for any contributions equivalent premium paid in connection with the scheme under Chapter 3 of Part 3 of that Act.

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<sup>(20)</sup> 1993 c.48.

<sup>(21)</sup> 1993 c.49.

### **Trustee’s right to expenses, remuneration, indemnity etc.**

26. Where an undertaking is a trustee, there must be disregarded any rights which the undertaking has in its capacity as trustee including, in particular, any right to recover its expenses or be remunerated out of the trust property and any right to be indemnified out of that property for any liability incurred by reason of any act or omission of the undertaking in the performance of its duties as trustee.

### **Supplementary**

27.—(1) This Schedule applies in relation to debentures as it applies in relation to shares.

(2) “Pension scheme” means any scheme for the provision of benefits consisting of or including relevant benefits for or in respect of employees or former employees; and “relevant benefits” means any pension, lump sum, gratuity or other like benefit given or to be given on retirement or on death or in anticipation of retirement or, in connection with past service, after retirement or death.

(3) In sub-paragraph (2) of this paragraph and in paragraph 25(2) “employee” and “employer” are to be read as if a director of an undertaking were employed by it.

## SCHEDULE 5

Regulation 8

### INFORMATION ABOUT BENEFITS OF DIRECTORS

## PART 1

### PROVISIONS APPLYING TO QUOTED AND UNQUOTED COMPANIES

#### **Total amount of directors’ remuneration etc.**

1.—(1) There must be shown—

- (a) the aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services;
- (b) the aggregate of the amount of gains made by directors on the exercise of share options;
- (c) the aggregate of the amount of money paid to or receivable by directors, and the net value of assets (other than money and share options) received or receivable by directors, under long term incentive schemes in respect of qualifying services; and
- (d) the aggregate value of any company contributions—
  - (i) paid, or treated as paid, to a pension scheme in respect of directors’ qualifying services, and
  - (ii) by reference to which the rate or amount of any money purchase benefits that may become payable will be calculated.

(2) There must be shown the number of directors (if any) to whom retirement benefits are accruing in respect of qualifying services—

- (a) under money purchase schemes, and
- (b) under defined benefit schemes.

(3) In the case of a company which is not a quoted company and whose equity share capital is not listed on the market known as AIM—



- (a) sub-paragraph (1) has effect as if paragraph (b) were omitted and, in paragraph (c), “assets” did not include shares; and
- (b) the number of each of the following (if any) must be shown, namely—
  - (i) the directors who exercised share options, and
  - (ii) the directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes.

## PART 2

### PROVISIONS APPLYING ONLY TO UNQUOTED COMPANIES

#### **Details of highest paid director’s emoluments etc.**

2.—(1) Where the aggregates shown under paragraph 1(1)(a), (b) and (c) total £200,000 or more, there must be shown—

- (a) so much of the total of those aggregates as is attributable to the highest paid director, and
- (b) so much of the aggregate mentioned in paragraph 1(1)(d) as is so attributable.

(2) Where sub-paragraph (1) applies and the highest paid director has performed qualifying services during the financial year by reference to which the rate or amount of any defined benefits that may become payable will be calculated, there must also be shown—

- (a) the amount at the end of the year of his accrued pension, and
- (b) where applicable, the amount at the end of the year of his accrued lump sum.

(3) Subject to sub-paragraph (4), where sub-paragraph (1) applies in the case of a company which is not a listed company, there must also be shown—

- (a) whether the highest paid director exercised any share options, and
- (b) whether any shares were received or receivable by that director in respect of qualifying services under a long term incentive scheme.

(4) Where the highest paid director has not been involved in any of the transactions specified in sub-paragraph (3), that fact need not be stated.

#### **Excess retirement benefits of directors and past directors**

3.—(1) Subject to sub-paragraph (2), there must be shown the aggregate amount of—

- (a) so much of retirement benefits paid to or receivable by directors under pension schemes, and
- (b) so much of retirement benefits paid to or receivable by past directors under such schemes, as (in each case) is in excess of the retirement benefits to which they were respectively entitled on the date on which the benefits first became payable or 31st March 1997, whichever is the later.

(2) Amounts paid or receivable under a pension scheme need not be included in the aggregate amount if—

- (a) the funding of the scheme was such that the amounts were or, as the case may be, could have been paid without recourse to additional contributions, and
- (b) amounts were paid to or receivable by all pensioner members of the scheme on the same basis.

(3) In sub-paragraph (2), “pensioner member”, in relation to a pension scheme, means any person who is entitled to the present payment of retirement benefits under the scheme.

(4) In this paragraph—

- (a) references to retirement benefits include benefits otherwise than in cash, and
- (b) in relation to so much of retirement benefits as consists of a benefit otherwise than in cash, references to their amount are to the estimated money value of the benefit,

and the nature of any such benefit must also be disclosed.

#### **Compensation to directors for loss of office**

4.—(1) There must be shown the aggregate amount of any compensation to directors or past directors in respect of loss of office.

(2) This includes compensation received or receivable by a director or past director—

- (a) for loss of office as director of the company, or
- (b) for loss, while director of the company or on or in connection with his ceasing to be a director of it, of—
  - (i) any other office in connection with the management of the company's affairs, or
  - (ii) any office as director or otherwise in connection with the management of the affairs of any subsidiary undertaking of the company.

(3) In this paragraph references to compensation for loss of office include—

- (a) compensation in consideration for, or in connection with, a person's retirement from office, and
- (b) where such a retirement is occasioned by a breach of the person's contract with the company or with a subsidiary undertaking of the company—
  - (i) payments made by way of damages for the breach, or
  - (ii) payments made by way of settlement or compromise of any claim in respect of the breach.

(4) In this paragraph—

- (a) references to compensation include benefits otherwise than in cash, and
- (b) in relation to such compensation references to its amount are to the estimated money value of the benefit.

The nature of any such compensation must be disclosed.

#### **Sums paid to third parties in respect of directors' services**

5.—(1) There must be shown the aggregate amount of any consideration paid to or receivable by third parties for making available the services of any person—

- (a) as a director of the company, or
- (b) while director of the company—
  - (i) as director of any of its subsidiary undertakings, or
  - (ii) otherwise in connection with the management of the affairs of the company or any of its subsidiary undertakings.

(2) In sub-paragraph (1)—

- (a) the reference to consideration includes benefits otherwise than in cash, and
- (b) in relation to such consideration the reference to its amount is to the estimated money value of the benefit.

The nature of any such consideration must be disclosed.

- (3) For the purposes of this paragraph a “third party” means a person other than—
- (a) the director himself or a person connected with him or a body corporate controlled by him, or
  - (b) the company or any of its subsidiary undertakings.

## PART 3

### SUPPLEMENTARY PROVISIONS

#### **General nature of obligations**

6.—(1) This Schedule requires information to be given only so far as it is contained in the company’s books and papers or the company has the right to obtain it from the persons concerned.

(2) For the purposes of this Schedule any information is treated as shown if it is capable of being readily ascertained from other information which is shown.

#### **Provisions as to amounts to be shown**

7.—(1) The following provisions apply with respect to the amounts to be shown under this Schedule.

(2) The amount in each case includes all relevant sums, whether paid by or receivable from the company, any of the company’s subsidiary undertakings or any other person.

(3) References to amounts paid to or receivable by a person include amounts paid to or receivable by a person connected with him or a body corporate controlled by him (but not so as to require an amount to be counted twice).

(4) Except as otherwise provided, the amounts to be shown for any financial year are—

- (a) the sums receivable in respect of that year (whenever paid), or
- (b) in the case of sums not receivable in respect of a period, the sums paid during that year.

(5) Sums paid by way of expenses allowance that are charged to United Kingdom income tax after the end of the relevant financial year must be shown in a note to the first accounts in which it is practicable to show them and must be distinguished from the amounts to be shown apart from this provision.

(6) Where it is necessary to do so for the purpose of making any distinction required in complying with this Schedule, the directors may apportion payments between the matters in respect of which they have been paid or are receivable in such manner as they think appropriate.

#### **Exclusion of sums liable to be accounted for to company etc.**

8.—(1) The amounts to be shown under this Schedule do not include any sums that are to be accounted for—

- (a) to the company or any of its subsidiary undertakings, or
- (b) by virtue of sections 219 and 222(3) of the 2006 Act (payments in connection with share transfers: duty to account) to persons who sold their shares as a result of the offer made.

(2) Where—

- (a) any such sums are not shown in a note to the accounts for the relevant financial year on the ground that the person receiving them is liable to account for them, and

- (b) the liability is afterwards wholly or partly released or is not enforced within a period of two years,

those sums, to the extent to which the liability is released or not enforced, must be shown in a note to the first accounts in which it is practicable to show them and must be distinguished from the amounts to be shown apart from this provision.

### **Meaning of “remuneration”**

9.—(1) In this Schedule “remuneration” of a director includes—

- (a) salary, fees and bonuses, sums paid by way of expenses allowance (so far as they are chargeable to United Kingdom income tax), and
  - (b) subject to sub-paragraph (2), the estimated money value of any other benefits received by the director otherwise than in cash.
- (2) The expression does not include—
- (a) the value of any share options granted to the director or the amount of any gains made on the exercise of any such options,
  - (b) any company contributions paid, or treated as paid, under any pension scheme or any benefits to which the director is entitled under any such scheme, or
  - (c) any money or other assets paid to or received or receivable by the director under any long term incentive scheme.

### **Meaning of “highest paid director”**

10. In this Schedule, “the highest paid director” means the director to whom is attributable the greatest part of the total of the aggregates shown under paragraph 1(1)(a), (b) and (c).

### **Meaning of “long term incentive scheme”**

11.—(1) In this Schedule “long term incentive scheme” means an agreement or arrangement—

- (a) under which money or other assets may become receivable by a director, and
  - (b) which includes one or more qualifying conditions with respect to service or performance which cannot be fulfilled within a single financial year.
- (2) For this purpose the following must be disregarded—
- (a) bonuses the amount of which falls to be determined by reference to service or performance within a single financial year;
  - (b) compensation for loss of office, payments for breach of contract and other termination payments; and
  - (c) retirement benefits.

### **Meaning of “shares” and “share option” and related expressions**

12. In this Schedule—

- (a) “shares” means shares (whether allotted or not) in the company, or any undertaking which is a group undertaking in relation to the company, and includes a share warrant as defined by section 779(1) of the 2006 Act; and
- (b) “share option” means a right to acquire shares.

## Meaning of “pension scheme” and related expressions

13.—(1) In this Schedule—

“pension scheme” means a retirement benefits scheme as defined by section 611 of the Income and Corporation Taxes Act 1988(22); and

“retirement benefits” has the meaning given by section 612(1) of that Act.

(2) In this Schedule “accrued pension” and “accrued lump sum”, in relation to any pension scheme and any director, mean respectively the amount of the annual pension, and the amount of the lump sum, which would be payable under the scheme on his attaining normal pension age if—

- (a) he had left the company’s service at the end of the financial year,
- (b) there was no increase in the general level of prices in the United Kingdom during the period beginning with the end of that year and ending with his attaining that age,
- (c) no question arose of any commutation of the pension or inverse commutation of the lump sum, and
- (d) any amounts attributable to voluntary contributions paid by the director to the scheme, and any money purchase benefits which would be payable under the scheme, were disregarded.

(3) In this Schedule, “company contributions”, in relation to a pension scheme and a director, means any payments (including insurance premiums) made, or treated as made, to the scheme in respect of the director by a person other than the director.

(4) In this Schedule, in relation to a director—

“defined benefits” means retirement benefits payable under a pension scheme that are not money purchase benefits;

“defined benefit scheme” means a pension scheme that is not a money purchase scheme;

“money purchase benefits” means retirement benefits payable under a pension scheme the rate or amount of which is calculated by reference to payments made, or treated as made, by the director or by any other person in respect of the director and which are not average salary benefits; and

“money purchase scheme” means a pension scheme under which all of the benefits that may become payable to or in respect of the director are money purchase benefits.

(5) In this Schedule, “normal pension age”, in relation to any pension scheme and any director, means the age at which the director will first become entitled to receive a full pension on retirement of an amount determined without reduction to take account of its payment before a later age (but disregarding any entitlement to pension upon retirement in the event of illness, incapacity or redundancy).

(6) Where a pension scheme provides for any benefits that may become payable to or in respect of any director to be whichever are the greater of—

- (a) money purchase benefits as determined by or under the scheme; and
- (b) defined benefits as so determined,

the company may assume for the purposes of this paragraph that those benefits will be money purchase benefits, or defined benefits, according to whichever appears more likely at the end of the financial year.

(7) For the purpose of determining whether a pension scheme is a money purchase or defined benefit scheme, any death in service benefits provided for by the scheme are to be disregarded.

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(22) 1988 c.1.

### References to subsidiary undertakings

14.—(1) Any reference in this Schedule to a subsidiary undertaking of the company, in relation to a person who is or was, while a director of the company, a director also, by virtue of the company's nomination (direct or indirect) of any other undertaking, includes that undertaking, whether or not it is or was in fact a subsidiary undertaking of the company.

(2) Any reference to a subsidiary undertaking of the company—

- (a) for the purposes of paragraph 1 (remuneration etc.) is to an undertaking which is a subsidiary undertaking at the time the services were rendered, and
- (b) for the purposes of paragraph 4 (compensation for loss of office) is to a subsidiary undertaking immediately before the loss of office as director.

### Other minor definitions

15.—(1) In this Schedule—

“net value”, in relation to any assets received or receivable by a director, means value after deducting any money paid or other value given by the director in respect of those assets;

“qualifying services”, in relation to any person, means his services as a director of the company, and his services while director of the company—

- (a) as director of any of its subsidiary undertakings; or
- (b) otherwise in connection with the management of the affairs of the company or any of its subsidiary undertakings.

(2) References in this Schedule to a person being “connected” with a director, and to a director “controlling” a body corporate, are to be construed in accordance with sections 252 to 255 of the 2006 Act.

(3) For the purposes of this Schedule, remuneration paid or receivable or share options granted in respect of a person's accepting office as a director are treated as emoluments paid or receivable or share options granted in respect of his services as a director.

## SCHEDULE 6

Regulation 9

### COMPANIES ACT GROUP ACCOUNTS

## PART 1

### GENERAL RULES

#### General rules

1.—(1) Group accounts must comply so far as practicable with the provisions of Schedule 1 to these Regulations as if the undertakings included in the consolidation (“the group”) were a single company (see Parts 2 and 3 of this Schedule for modifications for banking and insurance groups).

(2) Where the parent company is treated as an investment company for the purposes of Part 5 of Schedule 1 (special provisions for investment companies) the group must be similarly treated.

2.—(1) The consolidated balance sheet and profit and loss account must incorporate in full the information contained in the individual accounts of the undertakings included in the consolidation,

subject to the adjustments authorised or required by the following provisions of this Schedule and to such other adjustments (if any) as may be appropriate in accordance with generally accepted accounting principles or practice.

(2) If the financial year of a subsidiary undertaking included in the consolidation does not end with that of the parent company, the group accounts must be made up—

- (a) from the accounts of the subsidiary undertaking for its financial year last ending before the end of the parent company's financial year, provided that year ended no more than three months before that of the parent company, or
- (b) from interim accounts prepared by the subsidiary undertaking as at the end of the parent company's financial year.

**3.—**(1) Where assets and liabilities to be included in the group accounts have been valued or otherwise determined by undertakings according to accounting rules differing from those used for the group accounts, the values or amounts must be adjusted so as to accord with the rules used for the group accounts.

(2) If it appears to the directors of the parent company that there are special reasons for departing from sub-paragraph (1) they may do so, but particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(3) The adjustments referred to in this paragraph need not be made if they are not material for the purpose of giving a true and fair view.

**4.** Any differences of accounting rules as between a parent company's individual accounts for a financial year and its group accounts must be disclosed in a note to the latter accounts and the reasons for the difference given.

**5.** Amounts that in the particular context of any provision of this Schedule are not material may be disregarded for the purposes of that provision.

### **Elimination of group transactions**

**6.—**(1) Debts and claims between undertakings included in the consolidation, and income and expenditure relating to transactions between such undertakings, must be eliminated in preparing the group accounts.

(2) Where profits and losses resulting from transactions between undertakings included in the consolidation are included in the book value of assets, they must be eliminated in preparing the group accounts.

(3) The elimination required by sub-paragraph (2) may be effected in proportion to the group's interest in the shares of the undertakings.

(4) Sub-paragraphs (1) and (2) need not be complied with if the amounts concerned are not material for the purpose of giving a true and fair view.

### **Acquisition and merger accounting**

**7.—**(1) The following provisions apply where an undertaking becomes a subsidiary undertaking of the parent company.

(2) That event is referred to in those provisions as an "acquisition", and references to the "undertaking acquired" are to be construed accordingly.

**8.** An acquisition must be accounted for by the acquisition method of accounting unless the conditions for accounting for it as a merger are met and the merger method of accounting is adopted.

**9.—**(1) The acquisition method of accounting is as follows.

(2) The identifiable assets and liabilities of the undertaking acquired must be included in the consolidated balance sheet at their fair values as at the date of acquisition.

(3) The income and expenditure of the undertaking acquired must be brought into the group accounts only as from the date of the acquisition.

(4) There must be set off against the acquisition cost of the interest in the shares of the undertaking held by the parent company and its subsidiary undertakings the interest of the parent company and its subsidiary undertakings in the adjusted capital and reserves of the undertaking acquired.

(5) The resulting amount if positive must be treated as goodwill, and if negative as a negative consolidation difference.

**10.**—(1) The conditions for accounting for an acquisition as a merger are—

(a) that at least 90% of the nominal value of the relevant shares in the undertaking acquired (excluding any shares in the undertaking held as treasury shares) is held by or on behalf of the parent company and its subsidiary undertakings,

(b) that the proportion referred to in paragraph (a) was attained pursuant to an arrangement providing for the issue of equity shares by the parent company or one or more of its subsidiary undertakings,

(c) that the fair value of any consideration other than the issue of equity shares given pursuant to the arrangement by the parent company and its subsidiary undertakings did not exceed 10% of the nominal value of the equity shares issued, and

(d) that adoption of the merger method of accounting accords with generally accepted accounting principles or practice.

(2) The reference in sub-paragraph (1)(a) to the “relevant shares” in an undertaking acquired is to those carrying unrestricted rights to participate both in distributions and in the assets of the undertaking upon liquidation.

**11.**—(1) The merger method of accounting is as follows.

(2) The assets and liabilities of the undertaking acquired must be brought into the group accounts at the figures at which they stand in the undertaking’s accounts, subject to any adjustment authorised or required by this Schedule.

(3) The income and expenditure of the undertaking acquired must be included in the group accounts for the entire financial year, including the period before the acquisition.

(4) The group accounts must show corresponding amounts relating to the previous financial year as if the undertaking acquired had been included in the consolidation throughout that year.

(5) There must be set off against the aggregate of—

(a) the appropriate amount in respect of qualifying shares issued by the parent company or its subsidiary undertakings in consideration for the acquisition of shares in the undertaking acquired, and

(b) the fair value of any other consideration for the acquisition of shares in the undertaking acquired, determined as at the date when those shares were acquired,

the nominal value of the issued share capital of the undertaking acquired held by the parent company and its subsidiary undertakings.

(6) The resulting amount must be shown as an adjustment to the consolidated reserves.

(7) In sub-paragraph (5)(a) “qualifying shares” means—

(a) shares in relation to which any of the following provisions applies (merger relief), and in respect of which the appropriate amount is the nominal value—



- (i) section 131 of the Companies Act 1985~~(23)~~,
  - (ii) Article 141 of the Companies (Northern Ireland) Order 1986~~(24)~~, or
  - (iii) section 612 of the 2006 Act, or
- (b) shares in relation to which any of the following provisions applies (group reconstruction relief), and in respect of which the appropriate amount is the nominal value together with any minimum premium value within the meaning of that section—
- (i) section 132 of the Companies Act 1985~~(25)~~,
  - (ii) Article 142 of the Companies (Northern Ireland) Order 1986~~(26)~~, or
  - (iii) section 611 of the 2006 Act.

**12.**—(1) Where a group is acquired, paragraphs 9 to 11 apply with the following adaptations.

(2) References to shares of the undertaking acquired are to be construed as references to shares of the parent undertaking of the group.

(3) Other references to the undertaking acquired are to be construed as references to the group; and references to the assets and liabilities, income and expenditure and capital and reserves of the undertaking acquired must be construed as references to the assets and liabilities, income and expenditure and capital and reserves of the group after making the set-offs and other adjustments required by this Schedule in the case of group accounts.

**13.**—(1) The following information with respect to acquisitions taking place in the financial year must be given in a note to the accounts.

(2) There must be stated—

- (a) the name of the undertaking acquired or, where a group was acquired, the name of the parent undertaking of that group, and
- (b) whether the acquisition has been accounted for by the acquisition or the merger method of accounting;

and in relation to an acquisition which significantly affects the figures shown in the group accounts, the following further information must be given.

(3) The composition and fair value of the consideration for the acquisition given by the parent company and its subsidiary undertakings must be stated.

(4) Where the acquisition method of accounting has been adopted, the book values immediately prior to the acquisition, and the fair values at the date of acquisition, of each class of assets and liabilities of the undertaking or group acquired must be stated in tabular form, including a statement of the amount of any goodwill or negative consolidation difference arising on the acquisition, together with an explanation of any significant adjustments made.

(5) In ascertaining for the purposes of sub-paragraph (4) the profit or loss of a group, the book values and fair values of assets and liabilities of a group or the amount of the assets and liabilities of a group, the set-offs and other adjustments required by this Schedule in the case of group accounts must be made.

**14.**—(1) There must also be stated in a note to the accounts the cumulative amount of goodwill resulting from acquisitions in that and earlier financial years which has been written off otherwise than in the consolidated profit and loss account for that or any earlier financial year.

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~~(23)~~ Section 131 is prospectively repealed by the 2006 Act.

~~(24)~~ Article 141 is prospectively repealed by the 2006 Act.

~~(25)~~ Section 132 is prospectively repealed by the 2006 Act.

~~(26)~~ Article 142 is prospectively repealed by the 2006 Act.

(2) That figure must be shown net of any goodwill attributable to subsidiary undertakings or businesses disposed of prior to the balance sheet date.

**15.** Where during the financial year there has been a disposal of an undertaking or group which significantly affects the figure shown in the group accounts, there must be stated in a note to the accounts—

- (a) the name of that undertaking or, as the case may be, of the parent undertaking of that group, and
- (b) the extent to which the profit or loss shown in the group accounts is attributable to profit or loss of that undertaking or group.

**16.** The information required by paragraph 13, 14 or 15 need not be disclosed with respect to an undertaking which—

- (a) is established under the law of a country outside the United Kingdom, or
- (b) carries on business outside the United Kingdom,

if in the opinion of the directors of the parent company the disclosure would be seriously prejudicial to the business of that undertaking or to the business of the parent company or any of its subsidiary undertakings and the Secretary of State agrees that the information should not be disclosed.

### **Minority interests**

**17.—**(1) The formats set out in Schedule 1 to these Regulations have effect in relation to group accounts with the following additions.

(2) In the balance sheet formats there must be shown, as a separate item and under an appropriate heading, the amount of capital and reserves attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the parent company and its subsidiary undertakings.

(3) In the profit and loss account formats there must be shown, as a separate item and under an appropriate heading—

- (a) the amount of any profit or loss on ordinary activities, and
- (b) the amount of any profit or loss on extraordinary activities,

attributable to shares in subsidiary undertakings included in the consolidation held by or on behalf of persons other than the parent company and its subsidiary undertakings.

(4) For the purposes of paragraph 4(1) and (2) of Schedule 1 (power to adapt or combine items)—

- (a) the additional item required by sub-paragraph (2) above is treated as one to which a letter is assigned, and
- (b) the additional items required by sub-paragraph (3)(a) and (b) above are treated as ones to which an Arabic number is assigned.

### **Joint ventures**

**18.—**(1) Where an undertaking included in the consolidation manages another undertaking jointly with one or more undertakings not included in the consolidation, that other undertaking (“the joint venture”) may, if it is not—

- (a) a body corporate, or
- (b) a subsidiary undertaking of the parent company,

be dealt with in the group accounts by the method of proportional consolidation.

(2) The provisions of this Schedule relating to the preparation of consolidated accounts apply, with any necessary modifications, to proportional consolidation under this paragraph.

### **Associated undertakings**

**19.**—(1) An “associated undertaking” means an undertaking in which an undertaking included in the consolidation has a participating interest and over whose operating and financial policy it exercises a significant influence, and which is not—

- (a) a subsidiary undertaking of the parent company, or
- (b) a joint venture dealt with in accordance with paragraph 18.

(2) Where an undertaking holds 20% or more of the voting rights in another undertaking, it is presumed to exercise such an influence over it unless the contrary is shown.

(3) The voting rights in an undertaking means the rights conferred on shareholders in respect of their shares or, in the case of an undertaking not having a share capital, on members, to vote at general meetings of the undertaking on all, or substantially all, matters.

(4) The provisions of paragraphs 5 to 11 of Schedule 7 to the 2006 Act (parent and subsidiary undertakings: rights to be taken into account and attribution of rights) apply in determining for the purposes of this paragraph whether an undertaking holds 20% or more of the voting rights in another undertaking.

**20.**—(1) The formats set out in Schedule 1 to these Regulations have effect in relation to group accounts with the following modifications.

- (2) In the balance sheet formats replace the items headed “Participating interests”, that is—
- (a) in format 1, item B.III.3, and
  - (b) in format 2, item B.III.3 under the heading “ASSETS”,

by two items: “Interests in associated undertakings” and “Other participating interests”.

(3) In the profit and loss account formats replace the items headed “Income from participating interests”, that is—

- (a) in format 1, item 8,
- (b) in format 2, item 10,
- (c) in format 3, item B.4, and
- (d) in format 4, item B.6,

by two items: “Income from interests in associated undertakings” and “Income from other participating interests”.

**21.**—(1) The interest of an undertaking in an associated undertaking, and the amount of profit or loss attributable to such an interest, must be shown by the equity method of accounting (including dealing with any goodwill arising in accordance with paragraphs 17 to 20 and 22 of Schedule 1 to these Regulations).

(2) Where the associated undertaking is itself a parent undertaking, the net assets and profits or losses to be taken into account are those of the parent and its subsidiary undertakings (after making any consolidation adjustments).

(3) The equity method of accounting need not be applied if the amounts in question are not material for the purpose of giving a true and fair view.

### **Related party transactions**

22. Paragraph 72 of Schedule 1 to these Regulations applies to transactions which the parent company, or other undertakings included in the consolidation, have entered into with related parties, unless they are intra group transactions.

## **PART 2**

### **MODIFICATIONS FOR BANKING GROUPS**

#### **General application of provisions applicable to individual accounts**

23. In its application to banking groups, Part 1 of this Schedule has effect with the following modifications.

24. In paragraph 1 of this Schedule—

- (a) the reference in sub-paragraph (1) to the provisions of Schedule 1 to these Regulations is to be construed as a reference to the provisions of Schedule 2 to these Regulations, and
- (b) sub-paragraph (2) is to be omitted.

#### **Minority interests and associated undertakings**

25.—(1) This paragraph adapts paragraphs 17 and 20 (which require items in respect of “Minority interests” and associated undertakings to be added to the formats set out in Schedule 1 to these Regulations) to the formats prescribed by Schedule 2 to these Regulations.

(2) In paragraph 17—

- (a) in sub-paragraph (1), for the reference to Schedule 1 to these Regulations, substitute a reference to Schedule 2, and
- (b) paragraph 17(4) is not to apply, but for the purposes of paragraph 5(1) of Part I of Schedule 2 to these Regulations (power to combine items) the additional items required by the foregoing provisions of this paragraph are to be treated as items to which a letter is assigned.

(3) Paragraph 20(2) is to apply with respect to a balance sheet prepared under Schedule 2 to these Regulations as if it required assets item 7 (participating interests) in the balance sheet format to be replaced by the two replacement items referred to in that paragraph.

(4) Paragraph 20(3) is not to apply, but the following items in the profit and loss account formats—

- (a) format 1 item 3(b) (income from participating interests),
- (b) format 2 item B2(b) (income from participating interests),

are replaced by the following—

- (i) “Income from participating interests other than associated undertakings”, to be shown at position 3(b) in format 1 and position B2(b) in format 2, and
- (ii) “Income from associated undertakings”, to be shown at an appropriate position.

26. In paragraph 21(1) of this Schedule, for the references to paragraphs 17 to 20 and 22 of Schedule 1 to these Regulations substitute references to paragraphs 23 to 26 and 28 of Schedule 2 to these Regulations.

### **Related party transactions**

27. In paragraph 22 of this Schedule, for the reference to paragraph 72 of Schedule 1 to these Regulations substitute a reference to paragraph 92 of Schedule 2 to these Regulations.

### **Foreign currency translation**

28. Any difference between—

- (a) the amount included in the consolidated accounts for the previous financial year with respect to any undertaking included in the consolidation or the group's interest in any associated undertaking, together with the amount of any transactions undertaken to cover any such interest, and
- (b) the opening amount for the financial year in respect of those undertakings and in respect of any such transactions,

arising as a result of the application of paragraph 50 of Schedule 2 to these Regulations may be credited to (where (a) is less than (b)), or deducted from (where (a) is greater than (b)), (as the case may be) consolidated reserves.

29. Any income and expenditure of undertakings included in the consolidation and associated undertakings in a foreign currency may be translated for the purposes of the consolidated accounts at the average rates of exchange prevailing during the financial year.

### **Information as to undertaking in which shares held as a result of financial assistance operation**

30.—(1) The following provisions apply where the parent company of a banking group has a subsidiary undertaking which—

- (a) is a credit institution of which shares are held as a result of a financial assistance operation with a view to its reorganisation or rescue, and
- (b) is excluded from consolidation under section 405(3)(c) of the 2006 Act (interest held with a view to resale).

(2) Information as to the nature and terms of the operations must be given in a note to the group accounts, and there must be appended to the copy of the group accounts delivered to the registrar in accordance with section 441 of the 2006 Act a copy of the undertaking's latest individual accounts and, if it is a parent undertaking, its latest group accounts.

If the accounts appended are required by law to be audited, a copy of the auditor's report must also be appended.

(3) Any requirement of Part 35 of the 2006 Act as to the delivery to the registrar of a certified translation into English must be met in relation to any document required to be appended by subparagraph (2).

(4) The above requirements are subject to the following qualifications—

- (a) an undertaking is not required to prepare for the purposes of this paragraph accounts which would not otherwise be prepared, and if no accounts satisfying the above requirements are prepared none need be appended;
- (b) the accounts of an undertaking need not be appended if they would not otherwise be required to be published, or made available for public inspection, anywhere in the world, but in that case the reason for not appending the accounts must be stated in a note to the consolidated accounts.

(5) Where a copy of an undertaking's accounts is required to be appended to the copy of the group accounts delivered to the registrar, that fact must be stated in a note to the group accounts.

## PART 3

### MODIFICATIONS FOR INSURANCE GROUPS

#### **General application of provisions applicable to individual accounts**

**31.** In its application to insurance groups, Part 1 of this Schedule has effect with the following modifications.

**32.** In paragraph 1 of this Schedule—

- (a) the reference in sub-paragraph (1) to the provisions of Schedule 1 to these Regulations is to be construed as a reference to the provisions of Schedule 3 to these Regulations, and
- (b) sub-paragraph (2) is to be omitted.

#### **Financial years of subsidiary undertakings**

**33.** In paragraph 2(2)(a), for “three months” substitute “six months”.

#### **Assets and liabilities to be included in group accounts**

**34.** In paragraph 3, after sub-paragraph (1) insert—

“(1A) Sub-paragraph (1) is not to apply to those liabilities items the valuation of which by the undertakings included in a consolidation is based on the application of provisions applying only to insurance undertakings, nor to those assets items changes in the values of which also affect or establish policyholders’ rights.

(1B) Where sub-paragraph (1A) applies, that fact must be disclosed in the notes to the consolidated accounts.”.

#### **Elimination of group transactions**

**35.** For sub-paragraph (4) of paragraph 6 substitute—

“(4) Sub-paragraphs (1) and (2) need not be complied with—

- (a) where a transaction has been concluded according to normal market conditions and a policyholder has rights in respect of the transaction, or
- (b) if the amounts concerned are not material for the purpose of giving a true and fair view.

(5) Where advantage is taken of sub-paragraph (4)(a) that fact must be disclosed in the notes to the accounts, and where the transaction in question has a material effect on the assets, liabilities, financial position and profit or loss of all the undertakings included in the consolidation that fact must also be so disclosed.”.

#### **Minority interests**

**36.** In paragraph 17—

- (a) in sub-paragraph (1), for the reference to Schedule 1 to these Regulations, substitute a reference to Schedule 3, and
- (b) for sub-paragraph (4) substitute—

“(4) Paragraph 3(1) of Schedule 3 to these Regulations (power to combine items) does not apply in relation to the additional items required by the above provisions of this paragraph.”.

### **Associated undertakings**

**37.** In paragraph 20—

(a) in sub-paragraph (1), for the reference to Schedule 1 to these Regulations substitute a reference to Schedule 3 to these Regulations, and

(b) for sub-paragraphs (2) and (3) substitute—

“(2) In the balance sheet format, replace asset item C.II.3 (participating interests) with two items, “Interests in associated undertakings” and “Other participating interests”.

(3) In the profit and loss account format, replace items II.2.(a) and III.3.(a) (income from participating interests, with a separate indication of that derived from group undertakings) with—

(a) “Income from participating interests other than associated undertakings, with a separate indication of that derived from group undertakings”, to be shown as items II.2.(a) and III.3.(a), and

(b) “Income from associated undertakings”, to be shown as items II.2.(aa) and III.3.(aa).”.

**38.** In paragraph 21(1) of this Schedule, for the references to paragraphs 17 to 20 and 22 of Schedule 1 to these Regulations, substitute references to paragraphs 36 to 39 and 42 of Schedule 3 to these Regulations.

### **Related party transactions**

**39.** In paragraph 22 of this Schedule, for the reference to paragraph 72 of Schedule 1 to these Regulations substitute a reference to paragraph 90 of Schedule 3 to these Regulations.

### **Modifications of Schedule 3 to these Regulations for purposes of paragraph 31**

**40.**—(1) For the purposes of paragraph 31 of this Schedule, Schedule 3 to these Regulations is to be modified as follows.

(2) The information required by paragraph 11 (additional items) need not be given.

(3) In the case of general business, investment income, expenses and charges may be disclosed in the non-technical account rather than in the technical account.

(4) In the case of subsidiary undertakings which are not authorised to carry on long-term business in the United Kingdom, notes (8) and (9) to the profit and loss account format have effect as if references to investment income, expenses and charges arising in the long-term fund or to investments attributed to the long-term fund were references to investment income, expenses and charges or (as the case may be) investments relating to long-term business.

(5) In the case of subsidiary undertakings which do not have a head office in the United Kingdom, the computation required by paragraph 52 must be made annually by an actuary or other specialist in the field on the basis of recognised actuarial methods.

(6) The information required by paragraphs 85 to 88 need not be shown.

## SCHEDULE 7

Regulation 10

## MATTERS TO BE DEALT WITH IN DIRECTORS' REPORT

## PART 1

## MATTERS OF A GENERAL NATURE

**Introduction**

1. In addition to the information required by section 416 of the 2006 Act, the directors' report must contain the following information.

**Asset values**

2.—(1) If, in the case of such of the fixed assets of the company as consist in interests in land, their market value (as at the end of the financial year) differs substantially from the amount at which they are included in the balance sheet, and the difference is, in the directors' opinion, of such significance as to require that the attention of members of the company or of holders of its debentures should be drawn to it, the report must indicate the difference with such degree of precision as is practicable.

(2) In relation to a group directors' report sub-paragraph (1) has effect as if the reference to the fixed assets of the company was a reference to the fixed assets of the company and of its subsidiary undertakings included in the consolidation.

**Political donations and expenditure**

3.—(1) If—

- (a) the company (not being the wholly-owned subsidiary of a company incorporated in the United Kingdom) has in the financial year—
  - (i) made any political donation to any political party or other political organisation,
  - (ii) made any political donation to any independent election candidate, or
  - (iii) incurred any political expenditure, and
- (b) the amount of the donation or expenditure, or (as the case may be) the aggregate amount of all donations and expenditure falling within paragraph (a), exceeded £2000,

the directors' report for the year must contain the following particulars.

(2) Those particulars are—

- (a) as respects donations falling within sub-paragraph (1)(a)(i) or (ii)—
  - (i) the name of each political party, other political organisation or independent election candidate to whom any such donation has been made, and
  - (ii) the total amount given to that party, organisation or candidate by way of such donations in the financial year; and
- (b) as respects expenditure falling within sub-paragraph (1)(a)(iii), the total amount incurred by way of such expenditure in the financial year.

(3) If—

- (a) at the end of the financial year the company has subsidiaries which have, in that year, made any donations or incurred any such expenditure as is mentioned in sub-paragraph (1) (a), and



- (b) it is not itself the wholly-owned subsidiary of a company incorporated in the United Kingdom,

the directors' report for the year is not, by virtue of sub-paragraph (1), required to contain the particulars specified in sub-paragraph (2).

But, if the total amount of any such donations or expenditure (or both) made or incurred in that year by the company and the subsidiaries between them exceeds £2000, the directors' report for the year must contain those particulars in relation to each body by whom any such donation or expenditure has been made or incurred.

(4) Any expression used in this paragraph which is also used in Part 14 of the 2006 Act (control of political donations and expenditure) has the same meaning as in that Part.

**4.—(1)** If the company (not being the wholly-owned subsidiary of a company incorporated in the United Kingdom) has in the financial year made any contribution to a non-EU political party, the directors' report for the year must contain—

- (a) a statement of the amount of the contribution, or
- (b) (if it has made two or more such contributions in the year) a statement of the total amount of the contributions.

(2) If—

- (a) at the end of the financial year the company has subsidiaries which have, in that year, made any such contributions as are mentioned in sub-paragraph (1), and
- (b) it is not itself the wholly-owned subsidiary of a company incorporated in the United Kingdom,

the directors' report for the year is not, by virtue of sub-paragraph (1), required to contain any such statement as is there mentioned, but it must instead contain a statement of the total amount of the contributions made in the year by the company and the subsidiaries between them.

(3) In this paragraph, "contribution", in relation to an organisation, means—

- (a) any gift of money to the organisation (whether made directly or indirectly);
- (b) any subscription or other fee paid for affiliation to, or membership of, the organisation; or
- (c) any money spent (otherwise than by the organisation or a person acting on its behalf) in paying any expenses incurred directly or indirectly by the organisation.

(4) In this paragraph, "non-EU political party" means any political party which carries on, or proposes to carry on, its activities wholly outside the member States.

### **Charitable donations**

**5.—(1)** If—

- (a) the company (not being the wholly-owned subsidiary of a company incorporated in the United Kingdom) has in the financial year given money for charitable purposes, and
- (b) the money given exceeded £2000 in amount,

the directors' report for the year must contain, in the case of each of the purposes for which money has been given, a statement of the amount of money given for that purpose.

(2) If—

- (a) at the end of the financial year the company has subsidiaries which have, in that year, given money for charitable purposes, and
- (b) it is not itself the wholly owned subsidiary of a company incorporated in the United Kingdom,

sub-paragraph (1) does not apply to the company.

But, if the amount given in that year for charitable purposes by the company and the subsidiaries between them exceeds £2000, the directors' report for the year must contain, in the case of each of the purposes for which money has been given by the company and the subsidiaries between them, a statement of the amount of money given for that purpose.

(3) Money given for charitable purposes to a person who, when it was given, was ordinarily resident outside the United Kingdom is to be left out of account for the purposes of this paragraph.

(4) For the purposes of this paragraph, "charitable purposes" means purposes which are exclusively charitable, and as respects Scotland a purpose is charitable if it is listed in section 7(2) of the Charities and Trustee Investment (Scotland) Act 2005(27).

### Financial instruments

6.—(1) In relation to the use of financial instruments by a company, the directors' report must contain an indication of—

(a) the financial risk management objectives and policies of the company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and

(b) the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk, unless such information is not material for the assessment of the assets, liabilities, financial position and profit or loss of the company.

(2) In relation to a group directors' report sub-paragraph (1) has effect as if the references to the company were references to the company and its subsidiary undertakings included in the consolidation.

(3) In sub-paragraph (1) the expressions "hedge accounting", "price risk", "credit risk", "liquidity risk" and "cash flow risk" have the same meaning as they have in Council Directive [78/660/EEC](#) on the annual accounts of certain types of companies, and in Council Directive [83/349/EEC](#) on consolidated accounts(28).

### Miscellaneous

7.—(1) The directors' report must contain—

(a) particulars of any important events affecting the company which have occurred since the end of the financial year,

(b) an indication of likely future developments in the business of the company,

(c) an indication of the activities (if any) of the company in the field of research and development, and

(d) (unless the company is an unlimited company) an indication of the existence of branches (as defined in section 1046(3) of the 2006 Act) of the company outside the United Kingdom.

(2) In relation to a group directors' report paragraphs (a), (b) and (c) of sub-paragraph (1) have effect as if the references to the company were references to the company and its subsidiary undertakings included in the consolidation.

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(27) [2005 asp 10](#).

(28) O.J.L222 of 14.8.1978, page 11, and O.J. L193 of 18.7.1983, page 1, as amended in particular by Directives [2001/65/EEC](#) and [2003/51/EEC](#) of the European Parliament and of the Council (O.J. L238 of 27.12.2001, page 28, and O.J. L178 of 17.7.2003, page 16).

## PART 2

### DISCLOSURE REQUIRED BY COMPANY ACQUIRING ITS OWN SHARES ETC.

8. This Part of this Schedule applies where shares in a company—
- (a) are purchased by the company or are acquired by it by forfeiture or surrender in lieu of forfeiture, or in pursuance of any of the following provisions (acquisition of own shares by company limited by shares)—
    - (i) section 143(3) of the Companies Act 1985**(29)**,
    - (ii) Article 153(3) of the Companies (Northern Ireland) Order 1986**(30)**, or
    - (iii) section 659 of the 2006 Act, or
  - (b) are acquired by another person in circumstances where paragraph (c) or (d) of any of the following provisions applies (acquisition by company's nominee, or by another with company financial assistance, the company having a beneficial interest)—
    - (i) section 146(1) of the Companies Act 1985**(31)**,
    - (ii) Article 156(1) of the Companies (Northern Ireland) Order 1986**(32)**, or
    - (iii) section 662(1) of the 2006 Act applies, or
  - (c) are made subject to a lien or other charge taken (whether expressly or otherwise) by the company and permitted by any of the following provisions (exceptions from general rule against a company having a lien or charge on its own shares)—
    - (i) section 150(2) or (4) of the Companies Act 1985**(33)**,
    - (ii) Article 160(2) or (4) of the Companies (Northern Ireland) Order 1986**(34)**, or
    - (iii) section 670(2) or (4) of the 2006 Act.
9. The directors' report for a financial year must state—
- (a) the number and nominal value of the shares so purchased, the aggregate amount of the consideration paid by the company for such shares and the reasons for their purchase;
  - (b) the number and nominal value of the shares so acquired by the company, acquired by another person in such circumstances and so charged respectively during the financial year;
  - (c) the maximum number and nominal value of shares which, having been so acquired by the company, acquired by another person in such circumstances or so charged (whether or not during that year) are held at any time by the company or that other person during that year;
  - (d) the number and nominal value of the shares so acquired by the company, acquired by another person in such circumstances or so charged (whether or not during that year) which are disposed of by the company or that other person or cancelled by the company during that year;
  - (e) where the number and nominal value of the shares of any particular description are stated in pursuance of any of the preceding sub-paragraphs, the percentage of the called-up share capital which shares of that description represent;

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**(29)** Section 143 is prospectively repealed by the 2006 Act.

**(30)** Article 153 is prospectively repealed by the 2006 Act.

**(31)** Section 146(1)(aa) was inserted by section 102C(5) of 1986 c.53, as inserted by section 1(1) of 1997 c.41. Section 146 is prospectively repealed by the 2006 Act.

**(32)** Article 156(1)(aa) was inserted by section 102C(6) of 1986 c.53, as inserted by section 1(1) of 1997 c.41. Article 156 is prospectively repealed by the 2006 Act.

**(33)** Section 150 is prospectively repealed by the 2006 Act.

**(34)** Article 160 is prospectively repealed by the 2006 Act.

- (f) where any of the shares have been so charged the amount of the charge in each case; and
- (g) where any of the shares have been disposed of by the company or the person who acquired them in such circumstances for money or money's worth the amount or value of the consideration in each case.

## PART 3

### DISCLOSURE CONCERNING EMPLOYMENT ETC. OF DISABLED PERSONS

**10.**—(1) This Part of this Schedule applies to the directors' report where the average number of persons employed by the company in each week during the financial year exceeded 250.

(2) That average number is the quotient derived by dividing, by the number of weeks in the financial year, the number derived by ascertaining, in relation to each of those weeks, the number of persons who, under contracts of service, were employed in the week (whether throughout it or not) by the company, and adding up the numbers ascertained.

(3) The directors' report must in that case contain a statement describing such policy as the company has applied during the financial year—

- (a) for giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities,
- (b) for continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company, and
- (c) otherwise for the training, career development and promotion of disabled persons employed by the company.

(4) In this Part—

- (a) "employment" means employment other than employment to work wholly or mainly outside the United Kingdom, and "employed" and "employee" are to be construed accordingly; and
- (b) "disabled person" means the same as in the Disability Discrimination Act 1995<sup>(35)</sup>.

## PART 4

### EMPLOYEE INVOLVEMENT

**11.**—(1) This Part of this Schedule applies to the directors' report where the average number of persons employed by the company in each week during the financial year exceeded 250.

(2) That average number is the quotient derived by dividing, by the number of weeks in the financial year, the number derived by ascertaining, in relation to each of those weeks, the number of persons who, under contracts of service, were employed in the week (whether throughout it or not) by the company, and adding up the numbers ascertained.

(3) The directors' report must in that case contain a statement describing the action that has been taken during the financial year to introduce, maintain or develop arrangements aimed at—

- (a) providing employees systematically with information on matters of concern to them as employees,

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(35) 1995 c.50.

- (b) consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests,
  - (c) encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means,
  - (d) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.
- (4) In sub-paragraph (3) "employee" does not include a person employed to work wholly or mainly outside the United Kingdom; and for the purposes of sub-paragraph (2) no regard is to be had to such a person.

## PART 5

### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

12.—(1) This Part of this Schedule applies to the directors' report for a financial year if—

- (a) the company was at any time within the year a public company, or
- (b) the company did not qualify as small or medium-sized in relation to the year by virtue of section 382 or 465 of the 2006 Act and was at any time within the year a member of a group of which the parent company was a public company.

(2) The report must state, with respect to the next following financial year—

- (a) whether in respect of some or all of its suppliers it is the company's policy to follow any code or standard on payment practice and, if so, the name of the code or standard and the place where information about, and copies of, the code or standard can be obtained,
- (b) whether in respect of some or all of its suppliers it is the company's policy—
  - (i) to settle the terms of payment with those suppliers when agreeing the terms of each transaction,
  - (ii) to ensure that those suppliers are made aware of the terms of payment, and
  - (iii) to abide by the terms of payment,
- (c) where the company's policy is not as mentioned in paragraph (a) or (b) in respect of some or all of its suppliers, what its policy is with respect to the payment of those suppliers;

and if the company's policy is different for different suppliers or classes of suppliers, the report must identify the suppliers to which the different policies apply.

In this sub-paragraph references to the company's suppliers are references to persons who are or may become its suppliers.

(3) The report must also state the number of days which bears to the number of days in the financial year the same proportion as X bears to Y where—

- X = the aggregate of the amounts which were owed to trade creditors at the end of the year; and
- Y = the aggregate of the amounts in which the company was invoiced by suppliers during the year.

(4) For the purposes of sub-paragraphs (2) and (3) a person is a supplier of the company at any time if—

- (a) at that time, he is owed an amount in respect of goods or services supplied, and
- (b) that amount would be included under the heading corresponding to item E.4 (trade creditors) in format 1 if—

- (i) the company's accounts fell to be prepared as at that time,
  - (ii) those accounts were prepared in accordance with Schedule 1 to these Regulations, and
  - (iii) that format were adopted.
- (5) For the purpose of sub-paragraph (3), the aggregate of the amounts which at the end of the financial year were owed to trade creditors is taken to be—
- (a) where in the company's accounts format 1 of the balance sheet formats set out in Part 1 of Schedule 1 to these Regulations is adopted, the amount shown under the heading corresponding to item E.4 (trade creditors) in that format,
  - (b) where format 2 is adopted, the amount which, under the heading corresponding to item C.4 (trade creditors) in that format, is shown as falling due within one year, and
  - (c) where the company's accounts are prepared in accordance with Schedule 2 or 3 to these Regulations or the company's accounts are IAS accounts, the amount which would be shown under the heading corresponding to item E.4 (trade creditors) in format 1 if the company's accounts were prepared in accordance with Schedule 1 and that format were adopted.

## PART 6

### DISCLOSURE REQUIRED BY CERTAIN PUBLICLY-TRADED COMPANIES

**13.—**(1) This Part of this Schedule applies to the directors' report for a financial year if the company had securities carrying voting rights admitted to trading on a regulated market at the end of that year.

(2) The report must contain detailed information, by reference to the end of that year, on the following matters—

- (a) the structure of the company's capital, including in particular—
  - (i) the rights and obligations attaching to the shares or, as the case may be, to each class of shares in the company, and
  - (ii) where there are two or more such classes, the percentage of the total share capital represented by each class;
- (b) any restrictions on the transfer of securities in the company, including in particular—
  - (i) limitations on the holding of securities, and
  - (ii) requirements to obtain the approval of the company, or of other holders of securities in the company, for a transfer of securities;
- (c) in the case of each person with a significant direct or indirect holding of securities in the company, such details as are known to the company of—
  - (i) the identity of the person,
  - (ii) the size of the holding, and
  - (iii) the nature of the holding;
- (d) in the case of each person who holds securities carrying special rights with regard to control of the company—
  - (i) the identity of the person, and
  - (ii) the nature of the rights;

- (e) where—
    - (i) the company has an employees' share scheme, and
    - (ii) shares to which the scheme relates have rights with regard to control of the company that are not exercisable directly by the employees,  
how those rights are exercisable;
  - (f) any restrictions on voting rights, including in particular—
    - (i) limitations on voting rights of holders of a given percentage or number of votes,
    - (ii) deadlines for exercising voting rights, and
    - (iii) arrangements by which, with the company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities;
  - (g) any agreements between holders of securities that are known to the company and may result in restrictions on the transfer of securities or on voting rights;
  - (h) any rules that the company has about—
    - (i) appointment and replacement of directors, or
    - (ii) amendment of the company's articles of association;
  - (i) the powers of the company's directors, including in particular any powers in relation to the issuing or buying back by the company of its shares;
  - (j) any significant agreements to which the company is a party that take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects of any such agreements;
  - (k) any agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.
- (3) For the purposes of sub-paragraph (2)(a) a company's capital includes any securities in the company that are not admitted to trading on a regulated market.
- (4) For the purposes of sub-paragraph (2)(c) a person has an indirect holding of securities if—
- (a) they are held on his behalf, or
  - (b) he is able to secure that rights carried by the securities are exercised in accordance with his wishes.
- (5) Sub-paragraph (2)(j) does not apply to an agreement if—
- (a) disclosure of the agreement would be seriously prejudicial to the company, and
  - (b) the company is not under any other obligation to disclose it.
- (6) In this paragraph—
- “securities” means shares or debentures;
  - “takeover bid” has the same meaning as in the Takeovers Directive;
  - “the Takeovers Directive” means Directive [2004/25/EC](#) of the European Parliament and of the Council<sup>(36)</sup>;
  - “voting rights” means rights to vote at general meetings of the company in question, including rights that arise only in certain circumstances.
- 14.** The directors' report must also contain any necessary explanatory material with regard to information that is required to be included in the report by this Part.

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<sup>(36)</sup> O.J. No. L142, 30.4.2004, p.12.

## SCHEDULE 8

Regulation 11

## QUOTED COMPANIES: DIRECTORS' REMUNERATION REPORT

## PART 1

## INTRODUCTORY

1.—(1) In the directors' remuneration report for a financial year ("the relevant financial year") there must be shown the information specified in Parts 2 and 3.

(2) Information required to be shown in the report for or in respect of a particular person must be shown in the report in a manner that links the information to that person identified by name.

## PART 2

## INFORMATION NOT SUBJECT TO AUDIT

**Consideration by the directors of matters relating to directors' remuneration**

2.—(1) If a committee of the company's directors has considered matters relating to the directors' remuneration for the relevant financial year, the directors' remuneration report must—

- (a) name each director who was a member of the committee at any time when the committee was considering any such matter;
- (b) name any person who provided to the committee advice, or services, that materially assisted the committee in their consideration of any such matter;
- (c) in the case of any person named under paragraph (b), who is not a director of the company, state—
  - (i) the nature of any other services that that person has provided to the company during the relevant financial year; and
  - (ii) whether that person was appointed by the committee.

(2) In sub-paragraph (1)(b) "person" includes (in particular) any director of the company who does not fall within sub-paragraph (1)(a).

**Statement of company's policy on directors' remuneration**

3.—(1) The directors' remuneration report must contain a statement of the company's policy on directors' remuneration for the following financial year and for financial years subsequent to that.

(2) The policy statement must include—

- (a) for each director, a detailed summary of any performance conditions to which any entitlement of the director—
  - (i) to share options, or
  - (ii) under a long term incentive scheme,
 is subject;
- (b) an explanation as to why any such performance conditions were chosen;
- (c) a summary of the methods to be used in assessing whether any such performance conditions are met and an explanation as to why those methods were chosen;



- (d) if any such performance condition involves any comparison with factors external to the company—
    - (i) a summary of the factors to be used in making each such comparison, and
    - (ii) if any of the factors relates to the performance of another company, of two or more other companies or of an index on which the securities of a company or companies are listed, the identity of that company, of each of those companies or of the index;
  - (e) a description of, and an explanation for, any significant amendment proposed to be made to the terms and conditions of any entitlement of a director to share options or under a long term incentive scheme; and
  - (f) if any entitlement of a director to share options, or under a long term incentive scheme, is not subject to performance conditions, an explanation as to why that is the case.
- (3) The policy statement must, in respect of each director's terms and conditions relating to remuneration, explain the relative importance of those elements which are, and those which are not, related to performance.
- (4) The policy statement must summarise, and explain, the company's policy on—
- (a) the duration of contracts with directors, and
  - (b) notice periods, and termination payments, under such contracts.
- (5) In sub-paragraphs (2) and (3), references to a director are to any person who serves as a director of the company at any time in the period beginning with the end of the relevant financial year and ending with the date on which the directors' remuneration report is laid before the company in general meeting.

#### **Statement of consideration of conditions elsewhere in company and group**

4. The directors' remuneration report must contain a statement of how pay and employment conditions of employees of the company and of other undertakings within the same group as the company were taken into account when determining directors' remuneration for the relevant financial year.

#### **Performance graph**

- 5.—(1) The directors' remuneration report must—
- (a) contain a line graph that shows for each of—
    - (i) a holding of shares of that class of the company's equity share capital whose listing, or admission to dealing, has resulted in the company falling within the definition of "quoted company", and
    - (ii) a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which a broad equity market index is calculated,a line drawn by joining up points plotted to represent, for each of the financial years in the relevant period, the total shareholder return on that holding; and
  - (b) state the name of the index selected for the purposes of the graph and set out the reasons for selecting that index.
- (2) For the purposes of sub-paragraphs (1) and (4), "relevant period" means the five financial years of which the last is the relevant financial year.
- (3) Where the relevant financial year—
- (a) is the company's second, third or fourth financial year, sub-paragraph (2) has effect with the substitution of "two", "three" or "four" (as the case may be) for "five"; and

- (b) is the company's first financial year, "relevant period", for the purposes of sub-paragraphs (1) and (4), means the relevant financial year.
- (4) For the purposes of sub-paragraph (1), the "total shareholder return" for a relevant period on a holding of shares must be calculated using a fair method that—
- (a) takes as its starting point the percentage change over the period in the market price of the holding;
  - (b) involves making—
    - (i) the assumptions specified in sub-paragraph (5) as to reinvestment of income, and
    - (ii) the assumption specified in sub-paragraph (7) as to the funding of liabilities, and
  - (c) makes provision for any replacement of shares in the holding by shares of a different description;
- and the same method must be used for each of the holdings mentioned in sub-paragraph (1).
- (5) The assumptions as to reinvestment of income are—
- (a) that any benefit in the form of shares of the same kind as those in the holding is added to the holding at the time the benefit becomes receivable; and
  - (b) that any benefit in cash, and an amount equal to the value of any benefit not in cash and not falling within paragraph (a), is applied at the time the benefit becomes receivable in the purchase at their market price of shares of the same kind as those in the holding and that the shares purchased are added to the holding at that time.
- (6) In sub-paragraph (5) "benefit" means any benefit (including, in particular, any dividend) receivable in respect of any shares in the holding by the holder from the company of whose share capital the shares form part.
- (7) The assumption as to the funding of liabilities is that, where the holder has a liability to the company of whose capital the shares in the holding form part, shares are sold from the holding—
- (a) immediately before the time by which the liability is due to be satisfied, and
  - (b) in such numbers that, at the time of the sale, the market price of the shares sold equals the amount of the liability in respect of the shares in the holding that are not being sold.
- (8) In sub-paragraph (7) "liability" means a liability arising in respect of any shares in the holding or from the exercise of a right attached to any of those shares.

### **Service contracts**

- 6.—(1)** The directors' remuneration report must contain, in respect of the contract of service or contract for services of each person who has served as a director of the company at any time during the relevant financial year, the following information—
- (a) the date of the contract, the unexpired term and the details of any notice periods;
  - (b) any provision for compensation payable upon early termination of the contract; and
  - (c) such details of other provisions in the contract as are necessary to enable members of the company to estimate the liability of the company in the event of early termination of the contract.
- (2) The directors' remuneration report must contain an explanation for any significant award made to a person in the circumstances described in paragraph 15.

## PART 3

### INFORMATION SUBJECT TO AUDIT

#### **Amount of each director's emoluments and compensation in the relevant financial year**

7.—(1) The directors' remuneration report must for the relevant financial year show, for each person who has served as a director of the company at any time during that year, each of the following—

- (a) the total amount of salary and fees paid to or receivable by the person in respect of qualifying services;
- (b) the total amount of bonuses so paid or receivable;
- (c) the total amount of sums paid by way of expenses allowance that are—
  - (i) chargeable to United Kingdom income tax (or would be if the person were an individual), and
  - (ii) paid to or receivable by the person in respect of qualifying services;
- (d) the total amount of—
  - (i) any compensation for loss of office paid to or receivable by the person, and
  - (ii) any other payments paid to or receivable by the person in connection with the termination of qualifying services;
- (e) the total estimated value of any benefits received by the person otherwise than in cash that—
  - (i) do not fall within any of paragraphs (a) to (d) or paragraphs 8 to 12,
  - (ii) are emoluments of the person, and
  - (iii) are received by the person in respect of qualifying services; and
- (f) the amount that is the total of the sums mentioned in paragraphs (a) to (e).

(2) The directors' remuneration report must show, for each person who has served as a director of the company at any time during the relevant financial year, the amount that for the financial year preceding the relevant financial year is the total of the sums mentioned in paragraphs (a) to (e) of sub-paragraph (1).

(3) The directors' remuneration report must also state the nature of any element of a remuneration package which is not cash.

(4) The information required by sub-paragraphs (1) and (2) must be presented in tabular form.

#### **Share options**

8.—(1) The directors' remuneration report must contain, in respect of each person who has served as a director of the company at any time in the relevant financial year, the information specified in paragraph 9.

(2) Sub-paragraph (1) is subject to paragraph 10 (aggregation of information to avoid excessively lengthy reports).

(3) The information specified in sub-paragraphs (a) to (c) of paragraph 9 must be presented in tabular form in the report.

(4) In paragraph 9 "share option", in relation to a person, means a share option granted in respect of qualifying services of the person.

**9.** The information required by sub-paragraph (1) of paragraph 8 in respect of such a person as is mentioned in that sub-paragraph is—

- (a) the number of shares that are subject to a share option—
  - (i) at the beginning of the relevant financial year or, if later, on the date of the appointment of the person as a director of the company, and
  - (ii) at the end of the relevant financial year or, if earlier, on the cessation of the person's appointment as a director of the company,
 in each case differentiating between share options having different terms and conditions;
- (b) information identifying those share options that have been awarded in the relevant financial year, those that have been exercised in that year, those that in that year have expired unexercised and those whose terms and conditions have been varied in that year;
- (c) for each share option that is unexpired at any time in the relevant financial year—
  - (i) the price paid, if any, for its award,
  - (ii) the exercise price,
  - (iii) the date from which the option may be exercised, and
  - (iv) the date on which the option expires;
- (d) a description of any variation made in the relevant financial year in the terms and conditions of a share option;
- (e) a summary of any performance criteria upon which the award or exercise of a share option is conditional, including a description of any variation made in such performance criteria during the relevant financial year;
- (f) for each share option that has been exercised during the relevant financial year, the market price of the shares, in relation to which it is exercised, at the time of exercise; and
- (g) for each share option that is unexpired at the end of the relevant financial year—
  - (i) the market price at the end of that year, and
  - (ii) the highest and lowest market prices during that year,
 of each share that is subject to the option.

**10.—(1)** If, in the opinion of the directors of the company, disclosure in accordance with paragraphs 8 and 9 would result in a disclosure of excessive length then, (subject to sub-paragraphs (2) and (3))—

- (a) information disclosed for a person under paragraph 9(a) need not differentiate between share options having different terms and conditions;
  - (b) for the purposes of disclosure in respect of a person under paragraph 9(c)(i) and (ii) and (g), share options may be aggregated and (instead of disclosing prices for each share option) disclosure may be made of weighted average prices of aggregations of share options;
  - (c) for the purposes of disclosure in respect of a person under paragraph 9(c)(iii) and (iv), share options may be aggregated and (instead of disclosing dates for each share option) disclosure may be made of ranges of dates for aggregation of share options.
- (2) Sub-paragraph (1)(b) and (c) does not permit the aggregation of—
- (a) share options in respect of shares whose market price at the end of the relevant financial year is below the option exercise price, with
  - (b) share options in respect of shares whose market price at the end of the relevant financial year is equal to, or exceeds, the option exercise price.

(3) Sub-paragraph (1) does not apply (and accordingly, full disclosure must be made in accordance with paragraphs 8 and 9) in respect of share options that during the relevant financial year have been awarded or exercised or had their terms and conditions varied.

### **Long term incentive schemes**

**11.**—(1) The directors' remuneration report must contain, in respect of each person who has served as a director of the company at any time in the relevant financial year, the information specified in paragraph 12.

(2) Sub-paragraph (1) does not require the report to contain share option details that are contained in the report in compliance with paragraphs 8 to 10.

(3) The information specified in paragraph 12 must be presented in tabular form in the report.

(4) For the purposes of paragraph 12—

(a) “scheme interest”, in relation to a person, means an interest under a long term incentive scheme that is an interest in respect of which assets may become receivable under the scheme in respect of qualifying services of the person; and

(b) such an interest “vests” at the earliest time when—

(i) it has been ascertained that the qualifying conditions have been fulfilled, and

(ii) the nature and quantity of the assets receivable under the scheme in respect of the interest have been ascertained.

(5) In this Schedule “long term incentive scheme” means any agreement or arrangement under which money or other assets may become receivable by a person and which includes one or more qualifying conditions with respect to service or performance that cannot be fulfilled within a single financial year, and for this purpose the following must be disregarded, namely—

(a) any bonus the amount of which falls to be determined by reference to service or performance within a single financial year;

(b) compensation in respect of loss of office, payments for breach of contract and other termination payments; and

(c) retirement benefits.

**12.**—(1) The information required by sub-paragraph (1) of paragraph 11 in respect of such a person as is mentioned in that sub-paragraph is—

(a) details of the scheme interests that the person has at the beginning of the relevant financial year or if later on the date of the appointment of the person as a director of the company;

(b) details of the scheme interests awarded to the person during the relevant financial year;

(c) details of the scheme interests that the person has at the end of the relevant financial year or if earlier on the cessation of the person's appointment as a director of the company;

(d) for each scheme interest within paragraphs (a) to (c)—

(i) the end of the period over which the qualifying conditions for that interest have to be fulfilled (or if there are different periods for different conditions, the end of whichever of those periods ends last); and

(ii) a description of any variation made in the terms and conditions of the scheme interests during the relevant financial year; and

(e) for each scheme interest that has vested in the relevant financial year—

(i) the relevant details (see sub-paragraph (3)) of any shares,

(ii) the amount of any money, and

(iii) the value of any other assets,  
that have become receivable in respect of the interest.

(2) The details that sub-paragraph (1)(b) requires of a scheme interest awarded during the relevant financial year include, if shares may become receivable in respect of the interest, the following—

- (a) the number of those shares;
- (b) the market price of each of those shares when the scheme interest was awarded; and
- (c) details of qualifying conditions that are conditions with respect to performance.

(3) In sub-paragraph (1)(e)(i) “the relevant details”, in relation to any shares that have become receivable in respect of a scheme interest, means—

- (a) the number of those shares;
- (b) the date on which the scheme interest was awarded;
- (c) the market price of each of those shares when the scheme interest was awarded;
- (d) the market price of each of those shares when the scheme interest vested; and
- (e) details of qualifying conditions that were conditions with respect to performance.

## **Pensions**

**13.—**(1) The directors’ remuneration report must, for each person who has served as a director of the company at any time during the relevant financial year, contain the information in respect of pensions that is specified in sub-paragraphs (2) and (3).

(2) Where the person has rights under a pension scheme that is a defined benefit scheme in relation to the person and any of those rights are rights to which he has become entitled in respect of qualifying services of his—

- (a) details—
  - (i) of any changes during the relevant financial year in the person’s accrued benefits under the scheme, and
  - (ii) of the person’s accrued benefits under the scheme as at the end of that year;
- (b) the transfer value, calculated in a manner consistent with “Retirement Benefit Schemes – Transfer Values (GN 11)” published by the Institute of Actuaries and the Faculty of Actuaries and dated 6th April 2001, of the person’s accrued benefits under the scheme at the end of the relevant financial year;
- (c) the transfer value of the person’s accrued benefits under the scheme that in compliance with paragraph (b) was contained in the directors’ remuneration report for the previous financial year or, if there was no such report or no such value was contained in that report, the transfer value, calculated in such a manner as is mentioned in paragraph (b), of the person’s accrued benefits under the scheme at the beginning of the relevant financial year;
- (d) the amount obtained by subtracting—
  - (i) the transfer value of the person’s accrued benefits under the scheme that is required to be contained in the report by paragraph (c), from
  - (ii) the transfer value of those benefits that is required to be contained in the report by paragraph (b),

and then subtracting from the result of that calculation the amount of any contributions made to the scheme by the person in the relevant financial year.

(3) Where—

- (a) the person has rights under a pension scheme that is a money purchase scheme in relation to the person, and
- (b) any of those rights are rights to which he has become entitled in respect of qualifying services of his,

details of any contribution to the scheme in respect of the person that is paid or payable by the company for the relevant financial year or paid by the company in that year for another financial year.

#### **Excess retirement benefits of directors and past directors**

**14.**—(1) Subject to sub-paragraph (3), the directors’ remuneration report must show in respect of each person who has served as a director of the company—

- (a) at any time during the relevant financial year, or
- (b) at any time before the beginning of that year,

the amount of so much of retirement benefits paid to or receivable by the person under pension schemes as is in excess of the retirement benefits to which he was entitled on the date on which the benefits first became payable or 31st March 1997, whichever is the later.

(2) In subsection (1) “retirement benefits” means retirement benefits to which the person became entitled in respect of qualifying services of his.

(3) Amounts paid or receivable under a pension scheme need not be included in an amount required to be shown under sub-paragraph (1) if—

- (a) the funding of the scheme was such that the amounts were or, as the case may be, could have been paid without recourse to additional contributions; and
- (b) amounts were paid to or receivable by all pensioner members of the scheme on the same basis;

and in this sub-paragraph “pensioner member”, in relation to a pension scheme, means any person who is entitled to the present payment of retirement benefits under the scheme.

(4) In this paragraph—

- (a) references to retirement benefits include benefits otherwise than in cash; and
- (b) in relation to so much of retirement benefits as consists of a benefit otherwise than in cash, references to their amount are to the estimated money value of the benefit,

and the nature of any such benefit must also be shown in the report.

#### **Compensation for past directors**

**15.** The directors’ remuneration report must contain details of any significant award made in the relevant financial year to any person who was not a director of the company at the time the award was made but had previously been a director of the company, including (in particular) compensation in respect of loss of office and pensions but excluding any sums which have already been shown in the report under paragraph 7(1)(d).

#### **Sums paid to third parties in respect of a director’s services**

**16.**—(1) The directors’ remuneration report must show, in respect of each person who served as a director of the company at any time during the relevant financial year, the aggregate amount of any consideration paid to or receivable by third parties for making available the services of the person—

- (a) as a director of the company, or
- (b) while director of the company—
  - (i) as director of any of its subsidiary undertakings, or

- (ii) as director of any other undertaking of which he was (while director of the company) a director by virtue of the company's nomination (direct or indirect), or
- (iii) otherwise in connection with the management of the affairs of the company or any such other undertaking.

(2) The reference to consideration includes benefits otherwise than in cash; and in relation to such consideration the reference to its amount is to the estimated money value of the benefit.

The nature of any such consideration must be shown in the report.

- (3) The reference to third parties is to persons other than—
  - (a) the person himself or a person connected with him or a body corporate controlled by him, and
  - (b) the company or any such other undertaking as is mentioned in sub-paragraph (1)(b)(ii).

## PART 4

### INTERPRETATION AND SUPPLEMENTARY

17.—(1) In this Schedule—

“amount”, in relation to a gain made on the exercise of a share option, means the difference between—

- (a) the market price of the shares on the day on which the option was exercised; and
- (b) the price actually paid for the shares;

“company contributions”, in relation to a pension scheme and a person, means any payments (including insurance premiums) made, or treated as made, to the scheme in respect of the person by anyone other than the person;

“defined benefit scheme”, in relation to a person, means a pension scheme which is not a money purchase scheme in relation to the person;

“emoluments” of a person—

- (a) includes salary, fees and bonuses, sums paid by way of expenses allowance (so far as they are chargeable to United Kingdom income tax or would be if the person were an individual), but
- (b) does not include any of the following, namely—
  - (i) the value of any share options granted to him or the amount of any gains made on the exercise of any such options;
  - (ii) any company contributions paid, or treated as paid, in respect of him under any pension scheme or any benefits to which he is entitled under any such scheme; or
  - (iii) any money or other assets paid to or received or receivable by him under any long term incentive scheme;

“long term incentive scheme” has the meaning given by paragraph 11(5);

“money purchase benefits”, in relation to a person, means retirement benefits the rate or amount of which is calculated by reference to payments made, or treated as made, by the person or by any other person in respect of that person and which are not average salary benefits;

“money purchase scheme”, in relation to a person, means a pension scheme under which all of the benefits that may become payable to or in respect of the person are money purchase benefits in relation to the person;



“pension scheme” means a retirement benefits scheme within the meaning given by section 611 of the Income and Corporation Taxes Act 1988;

“qualifying services”, in relation to any person, means his services as a director of the company, and his services at any time while he is a director of the company—

- (a) as a director of an undertaking that is a subsidiary undertaking of the company at that time;
- (b) as a director of any other undertaking of which he is a director by virtue of the company’s nomination (direct or indirect); or
- (c) otherwise in connection with the management of the affairs of the company or any such subsidiary undertaking or any such other undertaking;

“retirement benefits” means relevant benefits within the meaning given by section 612(1) of the Income and Corporation Taxes Act 1988;

“shares” means shares (whether allotted or not) in the company, or any undertaking which is a group undertaking in relation to the company, and includes a share warrant as defined by section 779(1) of the 2006 Act;

“share option” means a right to acquire shares;

“value”, in relation to shares received or receivable on any day by a person who is or has been a director of the company, means the market price of the shares on that day.

(2) In this Schedule “compensation in respect of loss of office” includes compensation received or receivable by a person for—

- (a) loss of office as director of the company, or
- (b) loss, while director of the company or on or in connection with his ceasing to be a director of it, of—
  - (i) any other office in connection with the management of the company’s affairs, or
  - (ii) any office as director or otherwise in connection with the management of the affairs of any undertaking that, immediately before the loss, is a subsidiary undertaking of the company or an undertaking of which he is a director by virtue of the company’s nomination (direct or indirect);
- (c) compensation in consideration for, or in connection with, a person’s retirement from office; and
- (d) where such a retirement is occasioned by a breach of the person’s contract with the company or with an undertaking that, immediately before the breach, is a subsidiary undertaking of the company or an undertaking of which he is a director by virtue of the company’s nomination (direct or indirect)—
  - (i) payments made by way of damages for the breach; or
  - (ii) payments made by way of settlement or compromise of any claim in respect of the breach.

(3) References in this Schedule to compensation include benefits otherwise than in cash; and in relation to such compensation references in this Schedule to its amounts are to the estimated money value of the benefit.

(4) References in this Schedule to a person being “connected” with a director, and to a director “controlling” a body corporate, are to be construed in accordance with sections 252 to 255 of the 2006 Act.

**18.—**(1) For the purposes of this Schedule emoluments paid or receivable or share options granted in respect of a person's accepting office as a director are to be treated as emoluments paid or receivable or share options granted in respect of his services as a director.

(2) Where a pension scheme provides for any benefits that may become payable to or in respect of a person to be whichever are the greater of—

- (a) such benefits determined by or under the scheme as are money purchase benefits in relation to the person; and
- (b) such retirement benefits determined by or under the scheme to be payable to or in respect of the person as are not money purchase benefits in relation to the person,

the company may assume for the purposes of this Schedule that those benefits will be money purchase benefits in relation to the person, or not, according to whichever appears more likely at the end of the relevant financial year.

(3) In determining for the purposes of this Schedule whether a pension scheme is a money purchase scheme in relation to a person or a defined benefit scheme in relation to a person, any death in service benefits provided for by the scheme are to be disregarded.

**19.—**(1) The following applies with respect to the amounts to be shown under this Schedule.

(2) The amount in each case includes all relevant sums paid by or receivable from—

- (a) the company; and
- (b) the company's subsidiary undertakings; and
- (c) any other person,

except sums to be accounted for to the company or any of its subsidiary undertakings or any other undertaking of which any person has been a director while director of the company, by virtue of section 219 of the 2006 Act (payment in connection with share transfer: requirement of members' approval), to past or present members of the company or any of its subsidiaries or any class of those members.

(3) Reference to amounts paid to or receivable by a person include amounts paid to or receivable by a person connected with him or a body corporate controlled by him (but not so as to require an amount to be counted twice).

**20.—**(1) The amounts to be shown for any financial year under Part 3 of this Schedule are the sums receivable in respect of that year (whenever paid) or, in the case of sums not receivable in respect of a period, the sums paid during that year.

(2) But where—

- (a) any sums are not shown in the directors' remuneration report for the relevant financial year on the ground that the person receiving them is liable to account for them as mentioned in paragraph 19(2), but the liability is thereafter wholly or partly released or is not enforced within a period of 2 years; or
- (b) any sums paid by way of expenses allowance are charged to United Kingdom income tax after the end of the relevant financial year or, in the case of any such sums paid otherwise than to an individual, it does not become clear until the end of the relevant financial year that those sums would be charged to such tax were the person an individual,

those sums must, to the extent to which the liability is released or not enforced or they are charged as mentioned above (as the case may be), be shown in the first directors' remuneration report in which it is practicable to show them and must be distinguished from the amounts to be shown apart from this provision.

21. Where it is necessary to do so for the purpose of making any distinction required by the preceding paragraphs in an amount to be shown in compliance with this Part of this Schedule, the directors may apportion any payments between the matters in respect of which these have been paid or are receivable in such manner as they think appropriate.

22. The Schedule requires information to be given only so far as it is contained in the company's books and papers, available to members of the public or the company has the right to obtain it.

## SCHEDULE 9

Regulation 12

### INTERPRETATION OF TERM "PROVISIONS"

#### PART 1

#### MEANING FOR PURPOSES OF THESE REGULATIONS

##### **Definition of "Provisions"**

1.—(1) In these Regulations, references to provisions for depreciation or diminution in value of assets are to any amount written off by way of providing for depreciation or diminution in value of assets.

(2) Any reference in the profit and loss account formats or the notes to them set out in Schedule 1, 2 or 3 to these Regulations to the depreciation of, or amounts written off, assets of any description is to any provision for depreciation or diminution in value of assets of that description.

2. References in these Regulations to provisions for liabilities or, in the case of insurance companies, to provisions for other risks are to any amount retained as reasonably necessary for the purpose of providing for any liability the nature of which is clearly defined and which is either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which it will arise.

#### PART 2

#### MEANING FOR PURPOSES OF PARTS 18 AND 23 OF THE 2006 ACT

##### **Financial assistance for purchase of own shares**

3. The specified provisions for the purposes of section 677(3)(a) of the 2006 Act (Companies Act accounts: relevant provisions for purposes of financial assistance) are provisions within paragraph 2 of this Schedule.

##### **Redemption or purchase by private company out of capital**

4. The specified provisions for the purposes of section 712(2)(b)(i) of the 2006 Act (Companies Act accounts: relevant provisions to determine available profits for redemption or purchase out of capital) are provisions of any of the kinds mentioned in paragraphs 1 and 2 of this Schedule.

### **Net asset restriction on public companies distributions**

5. The specified provisions for the purposes of section 831(3)(a) of the 2006 Act (Companies Act accounts: net asset restriction on public company distributions) are—

- (a) provisions within paragraph 2 of this Schedule, and
- (b) in the case of an insurance company, any amount included under liabilities items Ba (fund for future appropriations), C (technical provisions) and D (technical provisions for linked liabilities) in a balance sheet drawn up in accordance with Schedule 3 to these Regulations.

### **Distributions by investment companies**

6. The specified provisions for the purposes of section 832(4)(a) of the 2006 Act (Companies Act accounts: investment companies distributions) are provisions within paragraph 2 of this Schedule.

### **Justification of distribution by references to accounts**

7. The specified provisions for the purposes of section 836(1)(b)(i) of the 2006 Act (Companies Act accounts: relevant provisions for distribution purposes)—

- (a) are provisions of any of the kinds mentioned in paragraphs 1 and 2 of this Schedule, and
- (b) in the case of an insurance company, any amount included under liabilities items Ba (fund for future appropriations), C (technical provisions) and D (technical provisions for linked liabilities) in a balance sheet drawn up in accordance with Schedule 3 to these Regulations.

## SCHEDULE 10

Regulation 13

### GENERAL INTERPRETATION

#### **Capitalisation**

1. “Capitalisation”, in relation to work or costs, means treating that work or those costs as a fixed asset.

#### **Financial instruments**

2. Save in Schedule 2 to these Regulations, 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 where 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 (for banking companies, see the definition in paragraph 94 of Schedule 2 to these Regulations).

3.—(1) Save in Schedule 2 to these Regulations, 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<sup>(37)</sup> and [91/674/EEC](#) on the annual accounts and consolidated accounts of

(37) O.J. L222 of 14.8.1978, page 11, as amended in particular by Directives [2001/65/EEC](#), [2003/51/EEC](#) and [2006/46/EEC](#) of the European Parliament and of the Council (O.J. L238 of 27.12.2001, page 28, O.J. L178 of 17.7.2003, page 16 and O.J. L224 of 16.8.2006, page 1).

insurance undertakings(38) (for banking companies, see the definition in paragraph 96 of Schedule 2 to these Regulations).

(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”.

### **Fixed and current assets**

4. “Fixed assets” means assets of a company which are intended for use on a continuing basis in the company’s activities, and “current assets” means assets not intended for such use.

### **Fungible assets**

5. “Fungible assets” means assets of any description which are substantially indistinguishable one from another.

### **Historical cost accounting rules**

6. References to the historical cost accounting rules are to be read in accordance with paragraph 30 of Schedule 1, paragraph 38 of Schedule 2 and paragraph 36(1) of Schedule 3 to these Regulations.

### **Leases**

7.—(1) “Long lease” means a lease in the case of which the portion of the term for which it was granted remaining unexpired at the end of the financial year is not less than 50 years.

(2) “Short lease” means a lease which is not a long lease.

(3) “Lease” includes an agreement for a lease.

### **Listed investments**

8.—(1) “Listed investment” means an investment as respects which there has been granted a listing on—

(a) a recognised investment exchange other than an overseas investment exchange, or

(b) a stock exchange of repute outside the United Kingdom.

(2) “Recognised investment exchange” and “overseas investment exchange” have the meaning given in Part 18 of the Financial Services and Markets Act 2000(39).

### **Loans**

9. A loan or advance (including a liability comprising a loan or advance) is treated as falling due for repayment, and an instalment of a loan or advance is treated as falling due for payment, on the earliest date on which the lender could require repayment or (as the case may be) payment, if he exercised all options and rights available to him.

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(38) O.J L374 of 31.12.1991, page 7, as amended in particular by Directives 2001/65/EEC, 2003/51/EEC and 2006/46/EEC of the European Parliament and of the Council (O.J. L238 of 27.12.2001, page 28, O.J. L178 of 17.7.2003, page 16 and O.J. L224 of 16.8.2006, page 1).

(39) 2000 c.8.

## **Materiality**

10. Amounts which in the particular context of any provision of Schedules 1, 2 or 3 to these Regulations are not material may be disregarded for the purposes of that provision.

## **Participating interests**

11.—(1) A “participating interest” means an interest held by an undertaking in the shares of another undertaking which it holds on a long-term basis for the purpose of securing a contribution to its activities by the exercise of control or influence arising from or related to that interest.

(2) A holding of 20% or more of the shares of the undertaking is to be presumed to be a participating interest unless the contrary is shown.

(3) The reference in sub-paragraph (1) to an interest in shares includes—

- (a) an interest which is convertible into an interest in shares, and
- (b) an option to acquire shares or any such interest,

and an interest or option falls within paragraph (a) or (b) notwithstanding that the shares to which it relates are, until the conversion or the exercise of the option, unissued.

(4) For the purposes of this regulation an interest held on behalf of an undertaking is to be treated as held by it.

(5) In the balance sheet and profit and loss formats set out in Schedules 1, 2 and 3 to these Regulations, “participating interest” does not include an interest in a group undertaking.

(6) For the purpose of this regulation as it applies in relation to the expression “participating interest”—

- (a) in those formats as they apply in relation to group accounts, and
- (b) in paragraph 19 of Schedule 6 (group accounts: undertakings to be accounted for as associated undertakings),

the references in sub-paragraphs (1) to (4) to the interest held by, and the purposes and activities of, the undertaking concerned are to be construed as references to the interest held by, and the purposes and activities of, the group (within the meaning of paragraph 1 of that Schedule).

## **Purchase price**

12. “Purchase price”, in relation to an asset of a company or any raw materials or consumables used in the production of such an asset, includes any consideration (whether in cash or otherwise) given by the company in respect of that asset or those materials or consumables, as the case may be.

## **Realised profits and realised losses**

13. “Realised profits” and “realised losses” have the same meaning as in section 853(4) and (5) of the 2006 Act.

## **Staff costs**

14.—(1) “Social security costs” means any contributions by the company to any state social security or pension scheme, fund or arrangement.

(2) “Pension costs” includes—

- (a) any costs incurred by the company in respect of any pension scheme established for the purpose of providing pensions for persons currently or formerly employed by the company,

- (b) any sums set aside for the future payment of pensions directly by the company to current or former employees, and
  - (c) any pensions paid directly to such persons without having first been set aside.
- (3) Any amount stated in respect of the item “social security costs” or in respect of the item “wages and salaries” in the company’s profit and loss account must be determined by reference to payments made or costs incurred in respect of all persons employed by the company during the financial year under contracts of service.

### **Scots land tenure**

**15.** In the application of these Regulations to Scotland, “land of freehold tenure” means land in respect of which the company is the owner; “land of leasehold tenure” means land of which the company is the tenant under a lease.