
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations revoke and replace with effect 1st January 1993 the Building Societies (Accounts and Related Provisions) Regulations 1987. They prescribe the format and content of the annual accounts which must be prepared in respect of building societies or of building societies and their subsidiary undertakings as a whole, as appropriate. These accounts comprise an income and expenditure account, a balance sheet and a statement of the source and application of funds; there is also provision for notes to the annual accounts and accounting principles and rules.

The new Regulations are required principally in order to implement Council Directive [86/635/EEC\(1\)](#) on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions, in so far as that Directive is applicable to building societies to which Part VIII of the Building Societies Act 1986 applies.

The principal changes effected as a result of the Directive are—

- (i) the introduction in Schedule 4 to the Regulations of rules concerning the methods to be used in producing consolidated accounts, which to a large extent reflect existing accounting practices;
 - (ii) a requirement for societies to use the interim accounts of subsidiary undertakings for the purpose of preparing group accounts, where the last financial year end of the subsidiary undertaking is more than 3 months before the year end of the society;
 - (iii) the introduction in Schedule 6 to the Regulations of detailed disclosure requirements in respect of subsidiary undertakings and other associated bodies, the requirements to a large extent reflect existing accounting practice;
 - (iv) the introduction of rules regarding the accounting for transactions denominated in foreign currencies;
- (v) a requirement to analyse various categories of commercial assets according to their maturity;
 - (vi) the introduction of detailed rules regarding the valuation of liquid assets, with the method of valuation in respect of transferable securities being dependent on whether the securities are financial fixed assets (ie intended for use on a continuing basis in the normal course of the society's activities) or otherwise;
 - (vii) a requirement to include certain commitments and contingencies on the balance sheet as memorandum items, together with increased disclosure requirements in the notes to the accounts in respect of such items.

The Regulations make a number of relatively minor changes to correct anomalies in the Regulations being revoked and to reflect parallel changes in the requirements for companies : the principal such changes are—

- (i) the amendment of the profit ratio shown in the Summary Financial Statement so that it is based on average mean reserves and not average gross capital, and is shown on a consistent basis with the more appropriate ratio given in the Annual Business Statement;
- (ii) the removal of the prescribed method for calculating average balances for determining the ratios required for the Annual Business Statement. Average balances

(1) O.J. L.372 of 31.12.86.

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will henceforth be calculated on a “reasonable” basis, with disclosure of the basis used being required.

- (iii) the addition of a requirement that profits and losses on financial transactions which are similar in nature to interest and spread over the actual duration of the contract involved, be included within “interest payable” or “interest receivable” in the income and expenditure account. All other income from financial instruments will continue to be included within “other income and charges”;
- (iv) a requirement that payments to appointed agencies be included within “administrative expenses”.