

2004 No. 3380

BUILDING SOCIETIES

The Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004

Made - - - - *21st December 2004*

Coming into force - - *21st December 2004*

Whereas a draft of this Order has been laid before Parliament in accordance with section 104(5) of the Building Societies Act 1986(a) and section 2(2) of the European Communities Act 1972(b) and approved by both Houses of Parliament;

Whereas the Treasury is a department designated(c) in relation to measures regulating the business of building societies;

Now therefore, the Treasury, in exercise of the powers conferred upon them by section 104 of the Building Societies Act 1986 and by section 2(2) of the European Communities Act 1972, hereby make the following Order:

PART 1

General

Citation, commencement and interpretation

1.—(1) This Order may be cited as the Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004.

(2) This Order comes into force on the day after the day on which it is made and has effect as respects building societies' financial years which begin on or after 1st January 2005 (the "commencement date").

(3) In this Order "the 1986 Act" means the Building Societies Act 1986.

(a) 1986 c.53.

(b) 1972 c. 68.

(c) The European Communities (Designation) (No.3) Order 2001 (S.I. 2001/3495).

PART 2

Accounts prepared in accordance with international accounting standards

Preparation of individual and group accounts in accordance with international accounting standards

2. For sections 72 and 73 of the 1986 Act(a) substitute—

“72A Duty to prepare individual accounts

(1) The directors of every building society shall prepare accounts for the society for each of its financial years.

Those accounts are referred to in this Part as the society’s “individual accounts”.

(2) A society’s individual accounts may be prepared—

(a) in accordance with section 72B (“Building Societies Act individual accounts”), or

(b) in accordance with international accounting standards (“IAS individual accounts”).

This subsection is subject to the following provisions of this section and section 72I (consistency of accounts).

(3) After the first financial year in which the directors of a building society prepare IAS individual accounts (“the first IAS year”), all subsequent individual accounts of the society must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(4) There is a relevant change of circumstance if, at any time during or after the first IAS year, the society ceases to have any securities admitted to trading on a regulated market.

(5) If, having changed to preparing Building Societies Act individual accounts following a relevant change of circumstance, the directors again prepare IAS individual accounts for the society, subsections (3) and (4) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

72B Building Societies Act individual accounts

(1) Building Societies Act individual accounts must comprise –

(a) a balance sheet as at the last day of the financial year, and

(b) an income and expenditure account.

(2) The balance sheet must give a true and fair view of the state of affairs of the society as at the end of the financial year; and the income and expenditure account must give a true and fair view of the income and expenditure of the society for the financial year.

(3) Building Societies Act individual accounts must comply with the requirements of regulations made under section 72C as to the form and content of the balance sheet and income and expenditure account and additional information to be provided by way of notes to the accounts or otherwise.

(4) Where compliance with the provisions of those regulations, and the other provisions of this Act as to the matters to be included in a society’s individual accounts or in notes to those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

(a) Sections 72 and 73 were amended by S.I. 1991/1729, S.I. 1999/248 and S.I. 2001/2617. Section 73 was also amended by section 43 of the Building Societies Act 1997.

(6) Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(7) The Treasury may by regulations—

- (a) add to the classes of documents to be comprised in a society's Building Societies Act individual accounts under subsection (1);
- (b) make provision as to the matters to be included in any document so added;
- (c) modify the requirements of this Part as to the matters to be stated in any document comprised in the society's Building Societies Act individual accounts;
- (d) reduce the classes of documents to be comprised in a society's Building Societies Act individual accounts.

(8) Regulations under subsection (7)—

- (a) may make different provision for different descriptions of society, and
- (b) may include incidental and supplementary provisions.

(9) The power to make regulations under subsection (7) is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

72C Form and contents of Building Societies Act individual accounts

(1) The Treasury shall by regulations make provision with respect to the form and contents of Building Societies Act individual accounts.

(2) The Treasury may by regulations make provision with respect to additional information to be contained in Building Societies Act individual accounts, whether in the form of notes or otherwise.

(3) Without prejudice to the generality of subsections (1) and (2), the regulations may—

- (a) prescribe accounting principles and rules;
- (b) require corresponding information for a preceding financial year;
- (c) make different provision for different descriptions of society;

(4) The power to make regulations under this section is exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

72D IAS individual accounts

Where the directors of a building society prepare IAS individual accounts, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

72E Duty to prepare group accounts

(1) If at the end of a financial year a building society has subsidiary undertakings, the directors, as well as preparing individual accounts for the year, shall prepare accounts for the year for the society and those undertakings taken as a whole.

Those accounts are referred to in this Part as the society's "group accounts".

(2) The group accounts of certain societies are required by Article 4 of the IAS Regulation to be prepared in accordance with international accounting standards ("IAS group accounts").

(3) The group accounts of other societies may be prepared—

- (a) in accordance with section 72F ("Building Societies Act group accounts"), or
- (b) in accordance with international accounting standards ("IAS group accounts").

This subsection is subject to the following provisions of this section.

(4) After the first financial year in which the directors of a building society prepare IAS group accounts (“the first IAS year”), all subsequent group accounts of the society must be prepared in accordance with international accounting standards unless there is a relevant change of circumstance.

(5) There is a relevant change of circumstance if, at any time during or after the first IAS year, the society ceases to have any securities admitted to trading on a regulated market.

(6) If, having changed to preparing Building Societies Act group accounts following a relevant change of circumstance, the directors again prepare IAS group accounts for the society, subsection (4) and (5) apply again as if the first financial year for which such accounts are again prepared were the first IAS year.

72F Building Societies Act group accounts

(1) Building Societies Act group accounts must comprise–

- (a) a balance sheet dealing with the state of affairs of the building society and its subsidiary undertakings, and
- (b) an income and expenditure account showing the income and expenditure for the society and its subsidiary undertakings.

(2) Building Societies Act group accounts must give a true and fair view of the state of affairs as at the end of the financial year, and the income and expenditure for the financial year of the society and the subsidiary undertakings included in the group accounts as a whole, so far as concerns members of the society.

(3) Building Societies Act group accounts must comply with the requirements of regulations made under section 72G as to the form and content of the group accounts and additional information to be provided by way of notes to the accounts or otherwise.

(4) Where compliance with the provisions of those regulations, and the other provisions of this Act as to the matters to be included in a society’s group accounts or in notes to those accounts, would not be sufficient to give a true and fair view, the necessary additional information must be given in the accounts or in a note to them.

(5) If in special circumstances compliance with any of those provisions is inconsistent with the requirement to give a true and fair view, the directors must depart from that provision to the extent necessary to give a true and fair view.

(6) Particulars of any such departure, the reasons for it and its effect must be given in a note to the accounts.

(7) The Treasury may by regulations–

- (a) add to the classes of documents to be comprised in a society’s Building Societies Act group accounts under subsection (1);
- (b) make provision as to the matters to be included in any document so added;
- (c) modify the requirements of this Part as to the matters to be stated in any document comprised in the society’s Building Societies Act group accounts; and
- (d) reduce the classes of documents to be comprised in a society’s Building Societies Act group accounts.

(8) Regulations under subsection (7)–

- (a) may make different provision for different descriptions of society, and
- (b) may include incidental and supplementary provisions.

(9) The power to make regulations under subsection (7) is exercisable by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

72G Form and contents of Building Societies Act group accounts

(1) The Treasury shall by regulations make provision with respect to the form and contents of Building Societies Act group accounts.

(2) The Treasury may by regulations make provision with respect to additional information to be contained in Building Societies Act group accounts, whether in the form of notes or otherwise.

(3) Without prejudice to the generality of subsections (1) and (2), the regulations may—

- (a) prescribe accounting principles and rules;
- (b) require corresponding information for a preceding financial year;
- (c) make different provision for different descriptions of society;
- (d) permit group accounts to be prepared in other than consolidated form.

(4) The power to make regulations under this section is exercisable by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

72H IAS group accounts

Where the directors of a building society prepare IAS group accounts, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

72I Consistency of accounts

(1) The directors of a building society that prepares group accounts must secure that the individual accounts of—

- (a) the building society, and
- (b) each of its subsidiary undertakings,

are all prepared using the same financial reporting framework, except to the extent that in their opinion there are good reasons for not doing so.

(2) Subsection (1) only applies to accounts of subsidiary undertakings which are required to be prepared under Part 7 of the Companies Act 1985(a).

(3) Subsection (1) does not require accounts of undertakings that are charities to be prepared using the same financial reporting framework as accounts of undertakings which are not charities.

(4) Subsection (1)(a) does not apply where the directors of a building society prepare IAS group accounts and IAS individual accounts.

(5) The directors of a society which has subsidiary undertakings must secure that, except where in their opinion there are good reasons against it, the financial year of each of its subsidiary undertakings coincides with the society's own financial year.”.

PART 3

Other modifications of provisions relating to accounts, directors' reports and auditors' reports

Duty to prepare directors' report

3.—(1) Section 75 of the 1986 Act (directors' report) is amended as follows.

(2) In subsection (1) for paragraph (a) substitute—

(a) 1985 c. 6, Part 7 is amended by the Companies Act 1989 (1989 c. 40), S.I. 1991/2705, S.I. 1993/ 3246, S.I. 1994/1935, S.I. 1997/220 and S.I. 2002/1986.

“(a) a fair review of the business of the society and its connected undertakings (if any), complying with section 75A,

(aa) a description of the principal risks and uncertainties facing the society and its connected undertakings (if any),”

(3) After subsection (1A)(a) insert—

“(1B) If the building society has subsidiary undertakings, the report may, where appropriate, give greater emphasis to those matters which are significant to the society and its subsidiary undertakings taken as a whole.”.

(4) Omit subsection (2).

Business review

4. After section 75 of the 1986 Act insert—

“75A Business review

(1) The review required for the purposes of section 75(1) is a balanced and comprehensive analysis of—

- (a) the development and performance of the business of the building society and its connected undertakings (if any) during the financial year, and
- (b) the position of the building society and its connected undertakings (if any) at the end of that year,

consistent with the size and complexity of the business.

(2) The review must, to the extent necessary for an understanding of the development, performance or position of the business of the society and its connected undertakings (if any), include—

- (a) analysis using financial key performance indicators, and
- (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

(3) The review must, where appropriate, include references to and additional explanations of amounts included in the annual accounts of the society.

(4) In this section “key performance indicators” means factors by reference to which the development, performance or position of the business of the society and any connected undertakings it has can be measured most effectively.”.

Content of auditors’ report

5.—(1) Section 78 of the 1986 Act (auditors’ report) is amended as follows.

(2) For subsections (4) and (5) substitute—

“(3A) The auditors’ report must include—

- (a) an introduction identifying the annual accounts that are the subject of the audit and the financial reporting framework that has been applied in their preparation;
- (b) a description of the scope of the audit identifying the auditing standards in accordance with which the audit was conducted.

(3B) The report must state clearly whether in the auditors’ opinion the annual accounts have been properly prepared in accordance with the requirements of this Act (and, where applicable, Article 4 of the IAS Regulation).

(4) The report must state in particular whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework—

(a) Inserted by the Building Societies Act 1997, section 43, Schedule 7, paragraph 32(2).

- (a) in the case of an individual balance sheet, of the state of affairs of the society as at the end of the financial year,
 - (b) in the case of an individual income and expenditure account, of the income and expenditure of the society for the financial year,
 - (c) in the case of group accounts, of the state of affairs as at the end of the financial year and the income and expenditure for the financial year of the society and the subsidiary undertakings dealt with in the group accounts, so far as concerns members of the society.
- (4A) The auditors' report—
- (a) must be either unqualified or qualified, and
 - (b) must include a reference to any matters to which the statutory auditors wish to draw attention by way of emphasis without qualifying the report.”.

Auditors' report to be signed and dated

6. After section 78 of the 1986 Act insert—

“78A Signature of auditors' report

(1) The auditors' report must state the names of the auditors and be signed and dated by them.

(2) Every copy of the auditors' report which is laid before the building society at the annual general meeting or which is otherwise circulated, published or issued, must state the names of the auditors.

(3) If a copy of the auditors' report is laid before the society or otherwise circulated, published or issued without the required statement of the auditors' names, the society and every officer of it who is in default is guilty of an offence and liable on summary conviction to a fine not exceeding level 3 on the standard scale.

(4) References in this section to signature by the auditors are, where the office of auditor is held by a body corporate or partnership, to signature in the name of the body corporate or partnership by a person authorised to sign on its behalf.”.

Auditors' report and publication of accounts

7. After section 81 of the 1986 Act insert—

“81A Requirements in connection with publication of accounts

(1) If a building society publishes any of its statutory accounts, they must be accompanied by the relevant auditors' report under section 78.

(2) A building society that is required to prepare group accounts for a financial year must not publish its statutory individual accounts for that year without also publishing with them its statutory group accounts.

(3) If a building society publishes non-statutory accounts, it must publish with them a statement indicating—

- (a) that they are not the society's statutory accounts,
- (b) whether statutory accounts dealing with any financial year with which the non-statutory accounts purport to deal have been prepared,
- (c) whether the society's auditors have made a report under section 78 on the statutory accounts for any financial year, and
- (d) whether any such auditors' report—

- (i) was qualified or unqualified, or included a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report, or
- (ii) contained a statement under section 79(6) (failure to obtain necessary information and explanations);

and it must not publish with any non-statutory accounts any auditors' report made under section 78.

(4) For the purposes of this section a building society is regarded as publishing a document if it publishes, issues or circulates it or otherwise makes it available for public inspection in a manner calculated to invite members of the public generally, or any class of members of the public, to read it.

(5) References in this section to a building society's statutory accounts are to its annual accounts as required to be laid before the society under section 81; and references to the publication by a society of "non-statutory accounts" are to the publication of—

- (a) any balance sheet or income and expenditure account relating to, or purporting to deal with, a financial year or part of a financial year of the society, or
- (b) an account in any form purporting to be a balance sheet or income and expenditure account for the group consisting of the society and its subsidiary undertakings relating to, or purporting to deal with, a financial year or part of a financial year of the society,

otherwise than as part of the society's statutory accounts or summary financial statement prepared under section 76.

(6) A building society which contravenes any provision of this section, and any officer of it who is in default, is guilty of an offence and liable on summary conviction to a fine not exceeding level 3 on the standard scale."

Consequential amendments

- 8. The Schedule to this Order (consequential amendments to the 1986 Act) has effect.

PART 4

Transitional provisions

Regulations made under sections 72 and 73

9.—(1) Regulations made under section 72 of the 1986 Act (documents comprised in annual accounts) and in force immediately before the commencement date have effect as if made under sections 72B and 72F of that Act (inserted by this Order).

(2) Regulations made under section 73 of the 1986 Act (contents and form of annual accounts) and in force immediately before the commencement date have effect as if made under sections 72C and 72G of that Act (inserted by this Order).

21st December 2004

Nick Ainger
Jim Murphy
Two of the Lords Commissioners of Her Majesty's Treasury

Consequential amendments to the 1986 Act

1. The 1986 Act is amended as follows.
- 2.—(1) Section 6 (the lending limit) is amended as follows.
 - (2) In subsection (2), in the definition of “X”, in paragraph (a) omit “in pursuance of regulations under section 73(7)”.
 - (3) In subsection (14), in the definition of “accounts”—
 - (a) in paragraph (a) omit “under subsection (1) of section 72”; and
 - (b) in paragraph (b) omit “under subsection (2) of that section”.
 - (4) After subsection (15) insert the following—

“(16) In this section, in the case of societies which produce IAS individual accounts or IAS group accounts;
“fixed assets” means—

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

“liquid assets” means—

 - (a) cash and cash equivalents;
 - (b) treasury bills and similar securities;
 - (c) loans and advances to credit institutions; and
 - (d) debt securities and other fixed income securities.”.
- 3.—(1) Section 61(3A)(a) (supplementary provisions regarding election of directors) is amended as follows—
 - (a) in paragraph (a), for “under section 73(7)” substitute “under section 72C or 72G, or in accordance with international accounting standards, as appropriate”;
 - (b) for “section 72” substitute “section 72A or 72E and “liquid assets” and “fixed assets”, in the case of societies which produce IAS individual accounts or IAS group accounts, have the same meaning as given in section 6(16).”.
4. In section 71(2) (accounting records), in each of paragraphs (c) and (d), after “under this Act” insert “(and, where applicable Article 4 of the IAS Regulation)”.
5. After section 72I (consistency of accounts) (inserted by this Order) insert—

“72J Disclosures relating to directors, other officers and employees of society required in notes to accounts

 - (1) The information specified in Schedule 10A must be given in notes to a building society’s annual accounts.
 - (2) In that Schedule—

(a) Substituted by the Building Societies Act 1997, section 28(2).

Part 1 relates to emoluments and other benefits of directors and others, and to loans and other dealings in favour of directors and connected persons, and

Part 2 relates to information about the employees of a society.

(3) It is the duty of any director of a society, and any person who is or has at any time in the preceding five years been an officer of the society, to give notice to the society of such matters relating to himself as may be necessary for the purposes of Part 1 of Schedule 10A.

(4) A person who makes default in complying with subsection (3) commits an offence and is liable on summary conviction to a fine not exceeding level 3 on the standard scale.

(5) The Treasury may, by order, modify the provisions of Schedule 10A.

(6) An order under this section may—

- (a) make consequential amendments of or repeals in other provisions of this Act;
- (b) make such transitional or saving provisions as appear to the Treasury to be necessary or expedient;
- (c) make different provision for different cases.

(7) The power to make an order under this section is exercisable by statutory instrument but no such order shall be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament.

(8) In this section “modify” includes amend, add to or repeal.

72K Disclosures about related undertakings required in notes to accounts

(1) The information specified in Schedule 10B must be given in notes to a building society’s annual accounts.

(2) In the case of a building society whose directors are not required to prepare consolidated group accounts, the information specified in Part 1 of that Schedule must be given.

(3) In the case of a building society whose directors are required to prepare consolidated group accounts, the information specified in Part 2 of that Schedule must be given.

(4) The Treasury may, by order, modify the provisions of Schedule 10B.

(5) An order under this section may—

- (a) make consequential amendments of or repeals in other provisions of this Act;
- (b) make such transitional or saving provisions as appear to the Treasury to be necessary or expedient;
- (c) make different provision for different cases.

(6) The power to make an order under this section is exercisable by statutory instrument but no such order shall be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament.

(7) In this section “modify” includes amend, add to or repeal.”.

6. After section 81A (requirements in connection with publication of accounts) (inserted by this Order) insert—

“81B Interpretation of Part 8

(1) In this Part—

“annual accounts”, in relation to a building society, means—

- (a) the individual accounts required by section 72A, and
- (b) any group accounts required by section 72E, together with the notes to those accounts;

“IAS Regulation” means EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards(a);

“income and expenditure account”, in relation to a society which prepares IAS accounts, includes an income statement or other equivalent financial statement required to be prepared by international accounting standards;

“international accounting standards” means the international accounting standards, within the meaning of the IAS Regulation, adopted from time to time by the European Commission in accordance with the IAS Regulation;

“regulated market” has the same meaning as it has in Council Directive 93/22/EEC on investment services in the securities field(b).

- (2) References in this Part to accounts giving a “true and fair view” are references—
- (a) in the case of Building Societies Act individual accounts, to the requirement under section 72B that such accounts give a true and fair view;
 - (b) in the case of Building Societies Act group accounts, to the requirement under section 72F that such accounts give a true and fair view; and
 - (c) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.”.

7.—(1) Section 119 (interpretation) is amended as follows.

(2) In subsection (1)—

- (a) for the definition of “the annual accounts” substitute—

““annual accounts” has the meaning given in section 81B(1)”;
- (b) the following definitions are inserted at the appropriate place in alphabetical order—

““Building Societies Act accounts” means Building Societies Act individual accounts and, where required, any Building Societies Act group accounts;”

““Building Societies Act group accounts” has the meaning given by section 72E(3)(a)”

““Building Societies Act individual accounts” has the meaning given by section 72A(2)(a)”

““group accounts” has the meaning given by section 72E(1);”

““IAS accounts” means IAS individual accounts or IAS group accounts;”

““IAS group accounts” has the meaning given by section 72E(3)(b);”

““IAS individual accounts” has the meaning given by section 72A(2)(b);”

““individual accounts” has the meaning given by section 72A(1);”.

8. In paragraph 31 of Schedule 2 (members’ right to propose and circulate resolutions)—

- (a) in sub-paragraph (2)(a)(i), for “section 72” substitute “section 72A or 72E”;
- (b) in paragraph (2)(a)(i)(aa), for “under section 73(7)” substitute “under section 72C or 72G or in accordance with international accounting standards, as appropriate”; and
- (c) after sub-paragraph (8) insert—

“(9) For the purposes of this paragraph “liquid assets” and “fixed assets”, in the case of societies which produce IAS individual accounts or IAS group accounts, have the same meaning as given in section 6(16).”.

9. After Schedule 10 insert the following—

(a) Official Journal L 243, 11/09/2002 P. 0001 – 0004.

(b) O.J. L141 of 11.06.93 page 27, as last amended by Directive 2000/64/EEC of the European Parliament and of the Council (O.J. L290 of 17.11.2000, page 27).

Disclosures about directors, other officers and employees in notes to accounts

Part 1

Emoluments of and dealings with directors and other officers

Aggregate amount of director’s remuneration etc

1.—(1) The following must be shown—

- (a) the aggregate amount of salary and fees and sums paid by way of expenses allowance (so far as they are chargeable to United Kingdom tax) paid to or receivable by directors in respect of qualifying services;
- (b) the aggregate amount of bonuses paid to or receivable by directors in respect of qualifying services;
- (c) the aggregate amount of the estimated money value of any other benefits paid to or receivable by directors in respect of qualifying services otherwise than in cash;
- (d) the aggregate of the amount of gains made by directors on the exercise of share options;
- (e) the aggregate of the following—
 - (i) the amount of money paid to or receivable by directors under long-term incentive schemes in respect of qualifying services; and
 - (ii) the net value of assets (other than money and share options) received or receivable by directors under such schemes in respect of such services;
- (f) the aggregate value of any society contributions paid, or treated as paid, to a pension scheme in respect of directors’ qualifying services, being contributions by reference to which the rate or amount of any money purchase benefits that may become payable will be calculated;
- (g) the aggregate amount of the increase during the financial year in the value of any accrued pension or accrued lump sum comprising defined benefits payable in respect of any qualifying services performed by directors during the financial year; and
- (h) the total aggregate amounts in paragraphs (a) to (g).

(2) In this paragraph—

“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 society’s service at the end of the financial year;
- (b) there were 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;

“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;

“defined benefits” means retirement benefits payable under a pension scheme which are not money purchase benefits;

“defined benefit scheme”, in relation to a director, means a pension scheme which is not a money purchase scheme;

“long-term incentive scheme” means any agreement or arrangement under which money or other assets may become receivable by a director and which includes one or more qualifying conditions with respect to service or performance which cannot be fulfilled within a single financial year; and for this purpose the following are 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;

“money purchase benefits”, in relation to a director, 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;

“money purchase scheme”, in relation to a director, 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;

“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 any 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);

“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 society, and his services while director of the society–

- (a) as director of any of its connected undertakings; or
- (b) otherwise in connection with the management of the affairs of the society or any of its connected undertakings;

“shares” means shares (whether allotted or not) in any connected undertaking of the society, and includes a share warrant as defined by section 188(1) of the Companies Act 1985(a);

“share option” means a right to acquire shares;

“society 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;

“value”, in relation to shares received or receivable by a director on any day, means the market price of the shares on that day.

(a) This section was substituted by the Companies Act 1989 section 130(7), Schedule 17, paragraph 6.

(3) For the purposes of this paragraph amounts paid or receivable or share options granted in respect of a person's accepting office as a director are treated as amounts paid or receivable or share options granted in respect of his services as a director.

(4) 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 society 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.

(5) 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 disregarded.

Details of individual directors' remuneration etc

2.—(1) There must be shown in respect of each director by name, so much of each of the relevant aggregates as is attributable to that director.

(2) In this paragraph "relevant aggregates" means the aggregates shown under paragraph 1(1)(a) to (h).

(3) Sub-paragraphs (2) to (5) of paragraph 1 apply for the purposes of this paragraph as they apply for the purposes of that paragraph.

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 relevant date.

(2) For the purposes of sub-paragraph (1) the relevant date is whichever is the later of

- (a) the date on which the benefits first became payable;
- (b) 27 March 1998; or
- (c) the date on which the provisions of the Building Societies Act 1997(a) specified in Part 2 of the Schedule to the Building Societies Act 1997 (Commencement) (No.3) Order 1997, have come into force in accordance with Article 2 of that Order in relation to the society.

(3) 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,

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

(a) 1997 c. 32.

- (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 amount of any compensation in respect of loss of office paid to or receivable by each director or past director by name, together with the aggregate amount of any such compensation.

(2) There must be shown the aggregate amount of any compensation referred to in sub-paragraph (1) in respect of the preceding financial year.

(3) The amounts referred to in sub-paragraph (1) include compensation received or receivable by a director or past director for—

- (a) loss of office as director of the society, or
- (b) loss, while director of the society 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 society's affairs, or
 - (ii) any office as director or otherwise in connection with the management of the affairs of any connected undertaking of the society.

(4) References in this paragraph—

- (a) to compensation include benefits paid or receivable other than in cash; and
- (b) to the amount of compensation are to the estimated money value of the benefit;

(5) The nature of any such compensation must be disclosed.

(6) In this paragraph, references to compensation for loss of office include the following—

- (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 society or with a subsidiary undertaking of the society—
 - (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.

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 society, or
- (b) while director of the society—
 - (i) as director of any of its connected undertakings, or
 - (ii) otherwise in connection with the management of the affairs of the society or any of its connected undertakings.

(2) The reference in sub-paragraph (1) to consideration includes benefits paid or receivable other than in cash; and—

- (a) the nature of any such consideration must be disclosed, and
- (b) in relation to such consideration the reference to its amount is to the estimated money value of the benefit.

(3) The reference in sub-paragraph (1) to third parties is to persons other than —

- (a) the director himself or a person connected with him or a body corporate associated with him, and

- (b) the society or any of its connected undertakings.

Supplementary provisions regarding directors' remuneration

6.—(1) The following applies with respect to the amounts to be shown under paragraphs 1 to 5.

- (2) The amount in each case includes all relevant sums paid by or receivable from—
 - (a) the society;
 - (b) the society's connected undertakings; and
 - (c) any other person,

except sums to be accounted for to the society or any of its connected undertakings.

(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 associated with him (but not so as to require an amount to be counted twice).

7.—(1) The amounts to be shown for any financial year under paragraphs 1 to 5 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 a note to the accounts for the relevant financial year on the ground that the person receiving them is liable to account for them as mentioned in paragraph 6(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,

those sums must, to the extent to which the liability is released or not enforced or they are charged as mentioned (as the case may be), 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.

8.—(1) Where the chief executive of the society is not also a director of the society, he is deemed, for the purposes of paragraphs 1 to 7, to be a director of the society.

(2) In such circumstances there must be a note in the accounts specifying that the chief executive has been so deemed to be a director.

Interpretation of provisions regarding directors remuneration

9.—(1) Sub-paragraphs (2) and (3) apply for the interpretation of paragraphs 1 to 8.

(2) For the purposes of paragraphs 1 and 2 a reference to a connected undertaking of the society is to any undertaking which is a connected undertaking at the time the services were rendered, and for the purposes of paragraph 4 is a reference to a connected undertaking immediately before the loss of office as a director.

(3) The following definitions apply—

- (a) “pension scheme” has the meaning assigned to “retirement benefits scheme” by section 611 of the Income and Corporation Taxes Act 1988(a);
- (b) “retirement benefits” has the meaning assigned to “relevant benefits” by section 612(1) and (2) of that Act.

(4) In paragraphs 5 and 6, references to a person being “connected” with a director, and to a director being “associated with” a body corporate, shall be construed in accordance with section 70 of this Act.

(a) 1988 c. 1.

Directors' loans and transactions

- 10.**—(1) This paragraph applies, subject to sub-paragraph (4), in relation to—
- (a) loans from and other transactions and arrangements with the society described in section 65 (which restricts loans to and other transactions and arrangements with directors and persons connected to them), other than those to which section 65(5) and (6) applies, and
 - (b) in the case of a society the directors of which are required to prepare consolidated group accounts, loans from and other transactions and arrangements with a subsidiary undertaking of the society to which paragraph (a) would apply were the society rather than the subsidiary undertaking a party to them.
- (2) The notes to the annual accounts must contain a statement, in relation to such loans, transactions and arrangements, showing—
- (a) the aggregate amounts outstanding under them at the end of the financial year; and
 - (b) the numbers of persons for whom such loans, transactions and arrangements were made.
- (3) The notes to the annual accounts must, in relation to any loan, or other transaction or arrangement subsisting during or at the end of the financial year, make the following disclosures—
- (a) where a copy of it or a memorandum of its terms is included in the register maintained under section 68, the existence of the register and the availability of requisite particulars from it for inspection must be disclosed;
 - (b) where it comes within paragraph (1)(b), its particulars must be disclosed unless it was one which would, had the subsidiary undertakings of the society formed part of the society, have been exempted from the obligations imposed by section 68.
- (4) This paragraph applies in relation to loans to, and other transactions and arrangements with, a person connected with a director of the society where the society (or in the case of a subsidiary undertaking incorporated in the United Kingdom, the subsidiary undertaking) has notice of the connection between that director and that person.

Disclosure of auditors' remuneration

- 11.**—(1) There must be shown in respect of the statutory auditors of the society—
- (a) the amount of remuneration received or receivable by them in their capacity as such; and
 - (b) the aggregate amount of remuneration, if any, received or receivable by the auditors or any associate of the auditors in respect of services other than those of the auditors in their capacity as such supplied—
 - (i) to the society; or
 - (ii) to any relevant subsidiary undertaking of the society of which the society's auditors or any associate of the society's auditors are the auditors.
- (2) In this paragraph—
- (a) “associate”, in relation to the auditors, shall be construed in accordance with paragraph 11;
 - (b) “relevant subsidiary undertaking”, in relation to the society, means any subsidiary undertaking of the society other than a subsidiary undertaking formed under the law of a country or territory outside the United Kingdom; and
 - (c) remuneration includes sums paid in respect of expenses and the estimated money value of any other benefits received or receivable otherwise than in cash.

Persons who are to be regarded as associates of a society's auditors

12.—(1) This paragraph applies in order to determine whether a person is to be regarded as an associate of a society's auditors in any financial year of a society in relation to which disclosure must be made by virtue of paragraph 10(1)(b).

(2) Where a society's auditors are a body corporate, each of the following is regarded as an associate of theirs in a relevant financial year—

- (a) any partnership in which the auditors were, at any time in the financial year, a partner;
- (b) any partnership in which a director of the auditors was, at any time in the financial year, a partner;
- (c) any body corporate which was, at any time in the financial year, in the same group as the auditors;
- (d) any body corporate which was a relevant subsidiary undertaking of the auditors or of a body corporate in the same group as the auditors at any time in the financial year;
- (e) any body corporate in which any director of the auditors either alone or with any associate of the auditors was, at any time in the financial year, entitled to exercise, or control the exercise of, 20 per cent or more of the voting rights at any general meeting and any body corporate which was, at any time in the financial year, in the same group as any such body corporate; and
- (f) any director of the auditors.

(3) Where a society's auditors are a partnership, each of the following is regarded as an associate of theirs in a relevant financial year—

- (a) any other partnership which had, at any time in the financial year, a partner in common with the auditors;
- (b) any body corporate which was, at any time in the financial year, a partner in the auditors;
- (c) any body corporate in which, whether alone or with any associate of the auditors, the auditors or any partner in the auditors was, at any time in the financial year, entitled to exercise, or control the exercise of, 20 per cent or more of the voting rights at any general meeting;
- (d) any body corporate which was, at any time in the financial year, in the same group as any such body corporate as is mentioned in paragraph (b) or (c) above; and
- (e) any partner in the auditors.

(4) Where a society's auditor is an individual, each of the following is regarded as an associate of his in a relevant financial year—

- (a) any partnership in which the auditor was, at any time in the financial year, a partner; and
- (b) any body corporate in which the auditor or any associate of his was, at any time in the financial year, entitled to exercise, or control the exercise of, 20 per cent or more of the voting rights at any general meeting and any body corporate which was, at any time in that year, in the same group as any such body corporate.

(5) Each of the following is regarded as an associate of the society's auditors in a relevant financial year whether the auditors are a body corporate, a partnership or an individual, that is to say, any person who was, at any time in that financial year, entitled to receive 20 per cent or more of the auditors' profits and any person of whose profits the auditors were, in that financial year, entitled to receive 20 per cent or more.

(6) In this paragraph—

- (a) “director” and “group” have the respective meanings given in section 53(1) of the Companies Act 1989^(a); and
- (b) “relevant subsidiary undertaking”, in relation to a body corporate, means any subsidiary undertaking of the body other than a subsidiary undertaking formed under the law of a country or territory outside the United Kingdom.

PART 2

Information about employees

13.—(1) The following information with respect to the employees of a building society must be given in notes to the society’s individual accounts—

- (a) the average number of persons employed by the society in the financial year, and
- (b) the average number of persons so employed within each category of persons employed by the society.

(2) The average number required by paragraph (1)(a) or (b) is determined by dividing the relevant annual number by the number of complete calendar months in the financial year.

(3) The relevant annual number is determined by ascertaining for each complete calendar month in the financial year—

- (a) for the purposes of paragraph (1)(a), the number of persons employed under contracts of service by the society in that month (whether throughout the month or not);
- (b) for the purposes of paragraph (1)(b), the number of persons in the category in question of persons so employed;

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

(4) In respect of all persons employed by the society during the financial year who are taken into account in determining the relevant annual number for the purposes of paragraph (1)(a) there must also be stated the aggregate amounts respectively of—

- (a) wages and salaries paid or payable in respect of that year to those persons;
- (b) social security costs incurred by the society on their behalf; and
- (c) other pension costs so incurred.

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

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

(6) This paragraph applies in relation to group accounts as if the undertakings included in those accounts were a single society.

(7) In this paragraph—

- (a) “social security costs” means any contribution by the society to any state social security or pension scheme, fund or arrangement;
- (b) “pension costs” includes any costs incurred by the society in respect of any pension scheme established for the purpose of providing pensions for persons currently or formerly employed by the society, any sums set aside for future payment of pensions directly by the society to current or former employees and any pensions paid directly to such persons without having been first set aside.

(a) 1989 c. 40.

Disclosures about related undertakings required in note to accounts

PART 1

Societies not required to prepare consolidated group accounts

Subsidiary undertakings

1.—(1) The following information must be given where at the end of the financial year the society has subsidiary undertakings but is not required to prepare consolidated group accounts.

(2) The name of each subsidiary undertaking shall be stated.

(3) There must be stated with respect to each subsidiary undertaking—

- (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.

(4) The specific reason why each subsidiary undertaking is not required to be included in consolidated group accounts must be stated.

Holdings in subsidiary undertakings

2.—(1) There must be stated in relation to shares of each class held by the society 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 society itself must be distinguished from those attributed to the society which are held by or on behalf of a subsidiary undertaking.

Financial information about subsidiary undertakings

3.—(1) There must be disclosed with respect to each subsidiary undertaking—

- (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) The information referred to in sub-paragraph (1) need not be given if the society's investment in the subsidiary undertaking is included in the society's accounts by way of the equity method of valuation or if—

- (a) the subsidiary undertaking is not required by any provision of the Companies Act 1985(a) or the Companies (Northern Ireland) Order 1986(b) 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

(a) 1985 c. 6.

(b) S.I. 1032/1986 (N.I. 6)

- (b) the society's holding is less than 50 per cent 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—
- (a) in the case of Building Societies Act accounts, for the purpose of giving a true and fair view for the society of the matters set out in section 72B(2) or, where appropriate section 72F(2), or
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.
- (4) 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 society, that year, and
 - (b) if not, its financial year ending last before the end of the society's financial year.

Financial years of subsidiary undertakings

4. Where—

- (a) disclosure is made under paragraph 3(1) with respect to a subsidiary undertaking; and
 - (b) that undertaking's financial year does not end with that of the society,
- there must be stated in relation to that undertaking the date on which its last financial year before the end of the society's financial year ended.

Significant holdings in undertakings other than subsidiary undertakings

5.—(1) The information required by paragraphs 6 and 7 must be given where at the end of the financial year the society has a significant holding in an undertaking which is not a subsidiary undertaking of the society.

- (2) A holding is significant for this purpose if—
- (a) it amounts to 20 per cent or more of the nominal value of the shares in the undertaking; or
 - (b) the amount of the holding (as stated or included in the society's accounts) exceeds one-fifth of the amount (as so stated) of the society's assets.

6.—(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; and
- (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 society; and
- (b) the proportion of the nominal value of the shares of that class represented by those shares.

(4) Information otherwise required by this paragraph need not be given if it is not material—

- (a) in the case of Building Societies Act accounts, for the purpose of giving a true and fair view for the society of the matters set out in section 72B(2) or, where appropriate, section 72F(2), or
- (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.

- 7.—(1) 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 if the investment of the society in all undertakings in which it has a significant holding is shown, in aggregate, in the notes to the accounts by way of the equity method of valuation.
- (3) That information need not be given in respect of an undertaking if
- (a) the undertaking is not required by any provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 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 society's holding is less than 50 per cent of the nominal value of the shares in the undertaking.
- (4) Information otherwise required by this paragraph need not be given if it is not material—
- (a) in the case of Building Societies Act accounts, for the purpose of giving a true and fair view for the society of the matters set out in section 72B(2) or, where appropriate, section 72F(2), or
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.
- (5) For the purposes of this paragraph the “relevant financial year” of an undertaking is —
- (a) if its financial year ends with that of the society, that year, and
 - (b) if not, its financial year ending last before the end of the society's financial year.

Construction of references to shares held by society

- 8.—(1) References in this Part of this Schedule to shares held by a society shall be construed as follows.
- (2) For the purposes of paragraphs 2 and 3—
- (a) shares held by a subsidiary undertaking, or by a person acting on behalf of the society or a subsidiary undertaking are treated as if they were held by the society; but
 - (b) shares held on behalf of a person other than the society or a subsidiary undertaking are not treated as if they were held by the society.
- (3) For the purposes of paragraphs 5 to 7—
- (a) shares held on behalf of a society by any person are treated as if they were held by the society; but
 - (b) shares held on behalf of a person other than the society are not treated as if they were held by the society.
- (4) For the purposes of paragraphs 2 to 7, shares held by way of security shall be treated as if they were held by the person providing the security —
- (a) where apart from the right to exercise them for the purposes 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 2

Societies required to prepare consolidated group accounts

Subsidiary undertakings

9.—(1) The following information must be given with respect to the undertakings that are subsidiary undertakings of the society at the end of the financial year.

(2) The name of each undertaking must be stated.

(3) There must be stated—

- (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.

(4) It must be stated whether the subsidiary undertaking is included in the consolidation and, if it is not, the reason for excluding it from the consolidation must be given.

(5) It must be stated with respect to each subsidiary undertaking of the society by virtue of which of the conditions specified in section 258 of the Companies Act 1985 it is a subsidiary undertaking of the society.

(6) That information need not be given in relation to a subsidiary undertaking if—

- (a) the relevant condition is that specified in subsection (2)(a) of that section, and
- (b) the society that is its immediate parent undertaking (within the meaning of section 258 of the Companies Act 1985) holds the same proportion of the shares in the undertaking as it holds voting rights.

Holdings in subsidiary undertakings

10.—(1) The following information must be given with respect to the shares of a subsidiary undertaking held—

- (a) by the society, and
- (b) by the group,

and the information required 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.

Financial information about subsidiary undertakings not included in the consolidation

11.—(1) There must be shown with respect to each subsidiary undertaking not included in the consolidation—

- (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) The information referred to in sub-paragraph (1) need not be given if the group's investment in the subsidiary undertaking is included in the accounts by way of the equity method of valuation or if—

- (a) the subsidiary undertaking is not required by any provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 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 holding of the group is less than 50 per cent of the nominal value of the shares in the subsidiary undertaking.
- (3) Information otherwise required by this paragraph need not be given if it is not material—
- (a) in the case of Building Societies Act accounts, for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in section 72F(2);
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.
- (4) 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 society, that year, and
 - (b) if not, its financial year ending last before the end of the society’s financial year.

Associated undertakings

- 12.**—(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 associated undertaking is incorporated outside the United Kingdom, the country in which it is incorporated, and
 - (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 associated undertaking held—
- (a) by the society; and
 - (b) by the group,
- and the information required under paragraphs (a) and (b) must (if different) be given separately.
- (5) There must be stated—
- (a) the identity of each class of shares in the associated undertaking held; and
 - (b) the proportion of the nominal value of the shares of that class represented by those shares.

Other significant holdings of society or group

- 13.**—(1) The information required by paragraphs 14 and 15 must be given where at the end of the financial year the society has a significant holding in an undertaking which is not one of its subsidiary undertakings and does not fall within paragraph 12 (associated undertakings).
- (2) A holding is significant for this purpose if—
- (a) it amounts to 20 per cent or more of the nominal value of the shares in the undertaking; or
 - (b) the amount of the holding (as stated or included in the society’s individual accounts) exceeds one-fifth of the amount of the society’s assets (as so stated).
- 14.**—(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; and
 - (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 society; and
 - (b) the proportion of the nominal value of the shares of that class represented by those shares.
- (4) The information otherwise required by this paragraph need not be given if it is not material—
- (a) in the case of Building Societies Act accounts, for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in section 72F(2);
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.

- 15.—**(1) 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 profits 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 Companies Act 1985 or the Companies (Northern Ireland) Order 1986 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 society's holding is less than 50 per cent 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—
- (a) for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in section 72F(2);
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.
- (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 society, that year, and
 - (b) if not, its financial year ending last before the end of the society's financial year.

16.—(1) The information required by paragraphs 17 and 18 must 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 society and does not fall within paragraph 12 (associated undertakings).

- (2) A holding is significant for this purpose if—
- (a) it amounts to 20 per cent or more of the nominal value of the 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).

17.—(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; and
 - (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 group; and
 - (b) the proportion of the nominal value of the shares of that class represented by those shares.
- (4) Information otherwise required by this paragraph need not be given if it is not material—
- (a) for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in section 72F(2);
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.
- 18.—**(1) 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 if—
- (a) the undertaking is not required by any provision of the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 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 holding of the group is less than 50 per cent 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—
- (a) for the purpose of giving a true and fair view for the society and its subsidiary undertakings as a whole, of the matters set out in section 72F(2);
 - (b) in the case of IAS accounts, to the requirement under international accounting standards that such accounts achieve a fair presentation.
- (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 society, that year, and
 - (b) if not, its financial year ending last before the end of the society’s financial year.

Construction of references to shares held by society or group

- 19.—**(1) References in this Part of this Schedule to shares held by the society or the group shall be construed as follows.
- (2) For the purposes of paragraphs 10, 12(4) and (5) and 13 to 15—
- (a) shares held on behalf of a society by any person are treated as if they were held by the society; but
 - (b) shares held on behalf of a person other than the society are not treated as if they were held by the society.
- (3) References to shares held by the group are to any shares held by or on behalf of the society or any of its subsidiary undertakings; but shares held on behalf of a person other than the society or any of its subsidiary undertakings are not treated as if they were held by the group.
- (4) Shares held by way of security are treated as if they were held by the person providing the security in the following cases—
- (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;

- (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 security, or of realising it, the rights attached to the shares are exercisable only in his interests.

Interpretation: general

20. In this Schedule, “group” means a building society and its subsidiary undertakings.”.

EXPLANATORY NOTE

(This note is not part of the Order)

This Order makes provision to give effect to:

Regulation (EC) 1606/2002 of the European Parliament and of the Council on the application of international accounting standards (OJ L 243, 11/09/2002 p.1 – 4) (“the IAS Regulation”), in relation to building societies; and

Parts of Directive 2003/51/EC of the European Parliament and of the Council amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC as regards modernising the annual and consolidated accounts of certain types of companies, banks and other financial institutions to bring the preparation of those accounts more into line with international accounting standards (OJ L 178, 17/07/2003, p.16 – 22) (“the Modernisation Directive”), in relation to building societies.

The Parts of the Modernisation Directive implemented by this Order, are those which require amendments to be made to the Building Societies Act 1986. The remainder of the directive will be implemented for building societies by amendments to the Building Societies (Accounts and Related Provisions) Regulations 1998.

This Order amends Part 8 of the Building Societies Act 1986 (“the 1986 Act) which deals with accounts and audit. Article 1 applies the provisions of the Order to building society’s financial years beginning on or after 1st January 2005.

Article 2 of the Order inserts new sections 72A to 72I into the 1986 Act. These new sections give full effect to the IAS Regulation and Member State options in it, by enabling all building societies to use adopted international accounting standards to prepare their individual and their group accounts.

Article 4 of the IAS Regulation requires undertakings whose securities are admitted to trading on a regulated market to prepare their consolidated accounts in accordance with international accounting standards adopted pursuant to the Regulation. Article 5 of the IAS Regulation contains options for Member States whereby they may–

permit undertakings to use adopted international accounting standards to prepare their individual accounts;

permit those undertakings who do not have securities which are traded on a regulated market, to use adopted international accounting standards to prepare their group accounts.

These options have been taken up and implemented for building societies by the insertion of these new sections into Part 8 of the 1986 Act.

Part 3 of the Order implements those parts of the Modernisation of Accounts Directive that require amendments to the 1986 Act.

Articles 3 and 4 amend section 75 of and insert a new section 75A into the 1986 Act to modify the requirements regarding the contents of the directors’ report. The report must now contain an analysis of the development, performance and position of the building society and its connected undertakings (if any). It must also contain a description of the principal risks and uncertainties facing the society’s business.

Article 5 amends section 78 of the 1986 Act to change the requirements regarding the contents of auditors’ report. The report must now state what financial reporting framework has been applied in preparation of the accounts.

Article 6 inserts a new section 78A into the 1986 Act which deals with the requirements for an auditors’ report to be signed and dated.

Article 7 inserts a new section 81A into the 1986 Act which imposes requirements on a building society about what auditors’ information should be included when it publishes its accounts.

Article 8 and the Schedule to the Order deal with consequential amendments to the 1986 Act.

Article 9 includes transitional provisions.

Paragraph 2 of the Schedule amends section 6 of the 1986 Act to provide definitions of “fixed assets” and “liquid assets” for those building societies which switch from producing their accounts under the Building Societies Act framework (where these terms are defined in regulations) to the international accounting standards framework (where these terms are not defined).

Paragraph 5 of the Schedule inserts new sections 72J and 72K into the 1986 Act which impose requirements on building societies to disclose information in the notes to their accounts—

in relation to benefits paid to directors and other officers of the society;

in relation to employees of the society;

in relation to undertakings that are related to the society.

The details of the information required are set out in two new Schedules to the 1986 Act, Schedules 10A and 10B which are inserted by this Order. The requirement to disclose this information in the notes to a society’s accounts was previously included in the Building Societies (Accounts and Related Provisions) Regulations 1998. It has now been included in the Act so that it will continue to apply to those societies which produce their accounts in accordance with adopted international accounting standards.

Paragraph 6 of the Schedule inserts a new section 81B into the 1986 Act which deals with interpretation of terms used in Part 8 of the 1986 Act.

Paragraph 7 of the Schedule inserts new definitions, arising out of the new provisions inserted into the 1986 Act, into section 119 of that Act.

Two different statutory powers are used to make this Order. Articles 3 and 4 are made under section 2(2) of the European Communities Act 1972 and all the remaining provisions of the Order are made under section 104 of the Building Societies Act 1986.

A regulatory impact assessment has been prepared in relation to this Order. A copy may be obtained from the General Insurance, Mutuels and Inclusion Team, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ. A copy of the transposition note showing how the main provisions of this Directive (as it applies to building societies) will be transposed into UK law is available from the same address. Both documents are also available on the Treasury website (www.hm-treasury.gov.uk). Copies of both these documents have been placed in the library of both Houses of Parliament.