

CHANGING ACCOUNTING FRAMEWORK INSTRUMENT 2004**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) 138 (General rule-making power);
 - (2) 141 (Insurance business rules);
 - (3) 156 (General supplementary powers);
 - (4) 157 (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force as follows:
- (1) the amendments to SUP 16 Annex 18BG in Annex E, Part 2 come into force on 1 April 2005;
 - (2) all other amendments come into force on 1 January 2005.

Amendments to the Handbook

- D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Interim Prudential sourcebook for Banks (IPRU(BANK))	Annex A
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex B
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex C
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex D
Supervision manual (SUP)	Annex E, Parts 1 and 2
Electronic Money sourcebook (ELM)	Annex F
Glossary of definitions	Annex G

Citation

- E. This instrument may be cited as the Changing Accounting Framework Instrument 2004.

By order of the Board
18 November 2004

Annex A

Amendments to the Interim Prudential sourcebook for Banks

In this Annex, underlining indicates new text and striking through indicates deleted text.

Volume 2, LE LARGE EXPOSURES

...

5 KEY DEFINITIONS: COUNTERPARTY

...

5.3 Connected counterparties

...

9 *Parties connected to a bank* comprise:

(a) ...

(b) ~~associated companies~~ as defined by Financial Reporting Standard 9 or by International Accounting Standard 28;

...

Volume 2, VA VALUATION

...

2 GENERAL POLICY ON VALUATION

...

5 The form and content of a bank's statutory financial statements are governed by:

(a) the Companies Act 1985, as amended by the Companies Act 1985 (Bank Accounts) Regulations 1991 ('BAR'), which implemented the EU Bank Accounts Directive, and the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 (SI 2004/to follow), which made arrangements for the use of *international accounting standards* (see definition in the *Glossary*) by companies and implemented the accounting Modernisation Directive (2003/51/EC) of 18 June 2003;

a) ...

(b) accounting standards comprising statements of standard accounting practice ('SSAPs') and financial reporting standards ('FRSs') or, where applicable, *international accounting standards*; and

a) SSAPs, ~~and~~ FRSs and *international accounting standards* focus on particular accounting issues and apply to the generality of companies.

(c) ...

a) Because ~~the SSAPs and FRSs~~ accounting standards apply to the generality of companies and not to banks specifically, they do not cover the accounting treatment of instruments and transactions peculiar to banks. SORPs issued by the BBA seek to plug this gap by codifying best banking industry practices.

...

Volume 2, CS CONSOLIDATED SUPERVISION

...

4 SCOPE OF CONSOLIDATION

...

4.3 Companies to be consolidated

3 Consolidation then extends to all relevant financial companies within that domain: that is the *parent company*; its *subsidiaries*; and companies in which the parent or its subsidiaries have a *participation*.

- a) ...
- b) ~~[deleted] The notion of *subsidiary* is also normally extended to cover a company over which the parent or one of its subsidiaries exercises *dominant influence*. The criteria used to determine whether dominant influence exists are those provided by the contemporary UK accounting standards.~~
 - i) ~~— The relevant accounting standard is FRS2, Accounting for Subsidiary Undertakings.~~
- c) ...

...

Volume 2, PN PROVISIONING POLICY STATEMENTS

...

2 THE FSA'S BASIC APPROACH TO PROVISIONING

1 The *FSA* regards the prudent valuation of assets and the establishment of provisions as of fundamental importance. The *FSA* expects contingent liabilities and anticipated losses to be recognised in accordance with accepted accounting standards (as embodied in the Statements of Standard Accounting Practice and Financial Reporting Standards or, where applicable, *international accounting standards* (see definition in the *Glossary*)).

Annex B

Amendments to the Interim Prudential sourcebook for Friendly Societies

In this Annex, underlining indicates new text and striking through indicates deleted text.

Chapter 7

DEFINITIONS

Part I Definitions

7.1

Insert the following definition in the appropriate alphabetical position:

international accounting standards means the international accounting standards, within the meaning of EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation.

...

Appendix 5

LIABILITY VALUATION RULES

...

Rates of interest

10.

- (5A) For variable interest investments that are equity *shares* in *companies* subject to, or drawing up accounts as if subject to, legislation implementing the *Accounts Directives*, or which draw up a set of accounts in accordance with ~~International Accounting Standards Committee accounting standards~~ international accounting standards or US generally accepted accounting practice, the yield on an asset, subject to (7A), must be the ratio to the value of the asset of- ...
- (5B) ...
- (5C) For the purposes of (5B), the issuing *company's* profits after taxation from its ordinary activities for the relevant financial year must be derived from accounts drawn up in accordance with legislation implementing the *Accounts Directives* or, if accounts are not drawn up in accordance with the *Accounts Directives*, from accounts drawn up in accordance with ~~International Accounting Standards Committee accounting standards~~ international accounting standards or US generally accepted accounting practice.

Annex C

Amendments to the Interim Prudential sourcebook for Insurers

In this Annex, underlining indicates new text and striking through indicates deleted text.

Volume 1, Chapter 9 FINANCIAL REPORTING

Part I

ACCOUNTS AND STATEMENTS

...

Audit and auditor's report

9.35

(2) For the purposes of the *Accounts and Statements Rules* –

(a) ...

(i) the references to the *profit and loss account* contained in the definition of 'individual accounts' in section 226~~(1)~~A of that Act and article 234(1) of that Order, respectively, included references to the revenue account; and

...

Volume 1, Chapter 11 DEFINITIONS

PART I

DEFINITIONS

11.1

Insert the following definition in the appropriate alphabetical position:

Term or phrase	Definition
...	
<u><i>international accounting standards</i></u>	<u>has the meaning given in the <i>Glossary of the FSA Handbook</i>.</u>

Annex D

Amendments to the Interim Prudential sourcebook for Investment Businesses

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Chapter 3: Financial resources for Securities and Futures Firms which are not Investment Firms

...

APPENDIX 1 – GLOSSARY OF TERMS FOR IPRU(INV) 3

...

<i>audited annual financial statements</i>	means statements drawn up in accordance with Schedule 4 to the Companies Act 1985 <u>or, where applicable, international accounting standards</u> as at the <i>firm's annual accounting reference date</i> together with an <i>auditor's report</i> thereon;
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...

Interim Prudential Requirements for Former IMRO Firms

5 CHAPTER 5: FINANCIAL RESOURCES

...

APPENDIX 1 (INTERPRETATION)

GLOSSARY OF TERMS FOR CHAPTER 5 (FORMER IMRO FIRMS)

Term	Meaning
...	
<i>contingent liability</i>	has the meaning in FRS 12 which states that it is: ...
...	
<i>parent</i>	means any parent undertaking as defined in section 258 of the Companies Act 1985 or paragraph 14 of Financial Reporting Standard No 2 and any undertaking which effectively exercises a dominant influence over another undertaking.
...	

10 Chapter 10: Financial resources for Securities and Futures Firms which are Investment Firms

...

APPENDIX 1 – GLOSSARY OF TERMS FOR IPRU(INV) 10

...

audited annual financial statements means statements drawn up in accordance with Schedule 4 to the Companies Act 1985 or, where applicable, international accounting standards as at the *firm's annual accounting reference date* together with an *auditor's report* thereon;

...

parent means any parent undertaking as defined in section 258 of the Companies Act 1985 ~~or paragraph 14 of Financial Reporting Standard No.2~~ and any undertaking which effectively exercises a dominant influence over another undertaking;

...

Chapter 13: Financial Resource Requirements for Personal Investment Firms

...

APPENDIX 13 (1)

Defined terms for Chapter 13

...

market value the market value as determined in accordance with ~~United Kingdom~~ generally accepted accounting practice.

Annex E

Amendments to the Supervision manual

In this Annex, underlining indicates new text and striking through indicates deleted text.

Part 1

Amendments taking effect on 1 January 2005

SUP 16 Annex 2G Form BSD3 REPORTING INSTRUCTIONS

...

APPENDIX A-IV - CURRENT YEAR'S PROFIT & LOSS ACCOUNT

...

80 Dividends/share of profits from subsidiary and associated companies

Reporting institutions reporting on an unconsolidated basis should include the dividends from other group companies only, together with the revaluation of any investment in subsidiaries or associates if equity accounting; those reporting on a consolidated basis should include only the share of profits from associates ~~companies according to the normal convention of accounting as currently set out in Financial Reporting Standard 9, "Accounting for the Results of Associated Entities"~~.

...

SUP 16 Annex 2G Supervisory Guidance Notes (SGN)

...

Closely related counterparties

12 ...

An undertaking (~~as defined in Financial Reporting Standard 2, Paragraph 14~~) is the parent undertaking of another undertaking (a subsidiary undertaking) if any of the following (from section 2598, Companies Act 1985) apply....

Connected counterparties

13 Parties connected to the reporting institution comprise:-

(i) ...

(ii) associates ~~companies as defined in the Statement of Standard Accounting Practice 1 (SSAP1) Financial Reporting Standard 9 (FRS 9) or in International Accounting Standard 28 (IAS 28);~~

...

SUP 16 Annex 4G Form MFS 1 GUIDANCE NOTES

BUILDING SOCIETY: MONTHLY STATEMENT

INTRODUCTION: GENERAL NOTES ON THE RETURN

...

7(iii) Foreign currencies

...Societies should apply the same accounting treatment as for the published accounts having regard to SSAP 20 or IAS 21.

...

SUP 16 Annex 4G Form QFS 1 GUIDANCE NOTES

BUILDING SOCIETY: QUARTERLY STATEMENT

INTRODUCTION: GENERAL NOTES ON THE RETURN

...

8(iii) Foreign currencies

...Societies should apply the same accounting treatment as for the published accounts having regard to SSAP 20 or IAS 21.

...

SUP 16 Annex 4G Form AFS 1 GUIDANCE NOTES

BUILDING SOCIETY: ANNUAL STATEMENT

INTRODUCTION: GENERAL NOTES ON THE RETURN

...

8(ii) Foreign currencies

...Societies should apply the same accounting treatment as for the published accounts having regard to SSAP 20 or IAS 21.

...

SUP Ann 10R : Securities and Futures Firms' Reporting Forms and Requirements Applying to their Completion

...

Section 6: Securities and futures firms: Form and content of reports

...

3 Table Audited Annual Financial Statements

...

1.1.2 A firm's audited annual financial statements must be drawn up in accordance with Schedule 4 of the Companies Act 1985 or, where applicable, international accounting standards as at the firm's accounting reference date.

4	Table	Accounting policies for financial reporting statements and audited annual financial statements
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General rule

- 1.1.3 (1) Unless otherwise provided in the *rules*, and subject to (2) below, a *firm* must determine amounts included in respect of items shown in a *firm*'s financial reporting statements and audited annual financial statements in accordance with this rule and the accounting principles and rules which the *firm* would apply if it were drawing up financial statements under the Companies Act 1985 including those accounting principles and rules contained in the United Kingdom Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) or, where applicable, *international accounting standards* effective at the relevant time.

...

SUP 16 Annex 11G Section 4

Guidance on the completion of LEM Forms for securities and futures firms which are ISD firms

1 SUMMARY OF REPORTING REQUIREMENTS

(1)...

(2) The amount at risk

The amount of risk should, with certain exceptions ... unless an alternative format is indicated within these reporting instructions.

~~Completion of the return should be in accordance with UK accepted accounting standards and practice subject to the paragraph above.~~

Part 2

Amendments taking effect on 1 April 2005

SUP 16 Ann 18BG NOTES FOR COMPLETION OF THE RETAIL MEDIATION ACTIVITIES RETURN (RMAR)

Introduction: general notes on the RMAR

...

Accounting Principles

15. The following principles should be adhered to by *firms* in the submission of financial information (sections A to E).

- (a) Unless a rule requires otherwise, amounts to be reported within the *firm's* balance sheet and profit and loss account should be determined in accordance with:
 - (i) ...
 - (ii) UK generally accepted accounting practice (UK GAAP). ~~This is set out in the Financial Reporting Standards and Statements of Standard Accounting Practice issued or adopted by the Accounting Standards Board; or, where applicable, international accounting standards;~~

Annex F

Amendments to the Electronic Money sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

5 Systems and controls

5.5 Rules for making calculations

...

Accounting policy for the ELM financial rules

5.5.2 R Except as otherwise provided for in *ELM*, and subject to *ELM 5.5.3R*, a *firm* must determine amounts included in the calculations required by the *ELM financial rules* in accordance with the accounting principles and rules which the *firm* would apply if it were drawing up financial statements under the Companies Act 1985 including those accounting principles and rules contained in the United Kingdom Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) or, where applicable, *international accounting standards* effective at the relevant time.

Annex G

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text.

...	
<i><u>international accounting standards</u></i>	<u>means the international accounting standards, within the meaning of EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation.</u>
...	
<i>market value</i>	The market value as determined in accordance with United Kingdom generally accepted accounting practice.