

EXPLANATORY MEMORANDUM TO
THE
BUILDING SOCIETIES (ACCOUNTS AND RELATED PROVISIONS)
(AMENDMENT) REGULATIONS 2007

2007 No. [XXXX]

1. This explanatory memorandum has been prepared by Her Majesty's Treasury ("HMT") and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 These Regulations amend the Building Societies (Accounts and Related Provisions) Regulations 1998 (S.I. 1998/504) ("the principal Regulations") to specify the format and contents of summary financial statements ("SFS") for societies that prepare their accounts according to international accounting standards ("IAS"). They also amend the required contents of the directors' report ("DR") and annual business statement ("ABS") for those societies.

2.2 These Regulations substitute a new definition of "EEA State" in the principal Regulations.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Background

4.1 The Building Societies Act 1986 ("BS Act 1986") is the primary legal framework for building societies in the United Kingdom. That Act was amended by the Building Societies Act 1997 and by and under the Financial Services and Markets Act 2000. The principal Regulations, made under the BS Act 1986, specify the required format and contents of the SFS, DR and ABS for all building societies.

4.2 In accordance with EC Regulation 1606/2002¹ from 1 January 2005 all listed companies in the UK have to prepare their consolidated accounts based on IAS rather than UK accounting standards (UK GAAP). This means that building societies that issue listed securities such as permanent interest bearing shares are therefore required to use IAS.

4.3 The format and contents of the SFS, DR and ABS specified in the principal Regulations are not suitable for societies that use IAS. These Regulations make appropriate amendments to the principal Regulations to cater for those societies.

¹ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

4.4 The existing definition of “EEA State” in Schedule 11 to the principal Regulations (interpretation of Schedules) excludes Bulgaria and Romania, which became Community member States on 1st January 2007. The amendment ensures consistency with the definition of “EEA State” in the Financial Services and Markets Act 2000 and other financial services legislation, which was substituted by the Financial Services (EEA State) Regulations 2007 (S.I. 2007/108).

5. Territorial Extent and Application

5.1 These Regulations apply to all of the United Kingdom.

6. European Convention on Human Rights

6.1 As the Regulations are subject to negative resolution procedure and do not amend primary legislation, no statement is required.

7. Policy background

7.1 Building societies are organisations, owned by their members, which pay interest on deposits and lend money on the security of property to enable members to buy their own homes. There are 60 building societies in the UK with total assets of over £305 billion. About 15 million adults have building society savings accounts and over 2¾ million adults are currently buying their own homes with the help of building society loans.

7.2 Building societies have diversified in recent years and a number now offer, among other services, current accounts, credit cards, cash machines, travel money, unsecured loans, various types of insurance and estate agency services. The Building Societies Association is the trade association for all the UK’s building societies and they are registered and regulated by the Financial Services Authority (“FSA”).

7.3 The changes will make all the summary financial statements of societies, which prepare accounts in accordance with IAS more transparent, harmonised and consistent with similar requirements for companies. They will also make it easier for consumers to make comparisons between societies.

7.4 The UK Accounting Standards Board intends to achieve convergence between IAS and UK GAAP in the near future. This means that making these changes now is useful to societies and will ensure consistency and comparability between societies’ summary financial statements, directors’ reports and annual business statements.

Consultation

7.5 HMT held a 12-week public consultation from 9 November 2006 to 1 February 2007. Over 300 copies of the consultation documents were issued to stakeholders in the UK and a copy posted on the HMT public website. There were 28 responses 27 of which supported this proposal for HMT to introduce legislation to facilitate the preparation of summary financial statements, directors’ reports and annual business statements by building societies as described.

7.6 As part of the consultation HMT informed and discussed with other Government departments and agencies including the Department of Trade & Industry, Small Business Service, Companies House, and Office of Fair Trading. HMT also consulted

with the FSA and informed the Scottish Executive, Welsh and Northern Ireland Assemblies.

7.7 A summary of the consultation responses is available on the HM Treasury public website at www.hm-treasury.gov.uk

8. Impact

8.1 A Regulatory Impact Assessment is attached to this explanatory memorandum and will be available on the HMT public website alongside a copy of the consultation document and summary of responses.

9. Contact

9.1 For further information or queries regarding these Regulations please contact:

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