

Summary of Responses to the HM Treasury consultation, “Updating the accounting framework for friendly societies”

The consultation

1. In July 2004, HM Treasury issued a consultation document¹ on its proposals to implement the EU Regulation on International Accounting Standards² (the “IAS Regulation”) and the Modernisation Directive³ for friendly societies. These two pieces of EU accounting legislation aim to modernise and improve the accounting framework for EU undertakings. The implementation deadline for both is 1st January 2005.
2. The HM Treasury consultation document on friendly societies was distributed to approximately 100 friendly societies, representative bodies, accounting bodies and individuals. It was also made available on the HM Treasury website. 3 consultation responses were received from:

Cirencester Friendly Society
The Association of Friendly Societies
The Institute of Chartered Accountants of Scotland

3. We are grateful to these bodies for their helpful comments. None of the respondents asked for their views to remain confidential. Those who would like to receive copies of these individual responses should contact Aleem Wallani (aleem.wallani@hm-treasury.x.gsi.gov.uk or 020 7270 4957), making clear which of the responses they would like to receive. Copies of this summary document and the consultation document can be downloaded from www.hm-treasury.gov.uk or by contacting Aleem Wallani.
4. This HM Treasury consultation document followed an earlier consultation⁴ by the Department for Trade & Industry (DTI) and HM Treasury in March 2004 on proposals to implement the IAS Regulation and the Modernisation Directive for companies and building societies. 38 responses were received to this document and a Summary of Responses was published in October 2004⁵. These responses have been taken into account when considering what changes, if any, to make to HM Treasury’s proposals on friendly societies.

Results of the consultation

Question 1:

¹ “Updating the accounting framework for friendly societies”, July 2004. Available at www.hm-treasury.gov.uk.

² Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. OJ L243/1 of 11 September 2002.

³ Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003. OJ L178/16 of 17 July 2003.

⁴ “Modernisation of Accounting Directives/IAS infrastructure”, 25 March 2004, URN 04/733.

Available at www.dti.gov.uk or www.hm-treasury.gov.uk.

⁵ Available at www.dti.gov.uk or www.hm-treasury.gov.uk

Do you agree that the option to use IAS should be available to all friendly societies? Or should it be available to larger friendly societies or particular categories of friendly societies?

5. It was noted that it was unlikely that non-directive friendly societies would choose to use IAS but consultation respondents agreed with the Government's flexible approach to allowing all friendly societies to choose to use IAS, if they were not already required to, when they themselves judged the benefits of doing so outweighed any potential costs.

Question 2:

Do you agree that there should consistency between companies and friendly societies in permitting them to choose to use IAS?

6. Consultation respondents unanimously agreed with this proposal. However, since the HM Treasury consultation on friendly society was published, a number of changes were made to proposals for companies. Specifically:
 - The Government had originally proposed that any shift to use of IAS should be one-way with one exception (where a company became subsidiary of an EEA undertaking that did not use IAS). This has been relaxed so that a company does not have to continue to use IAS if it becomes a subsidiary of any other undertaking (EEA or otherwise) that did not use IAS.
 - In addition, another exemption to the one-way rule has been introduced. Where a company ceases to issue listed securities and thus ceases to be required to use IAS, the Government does not consider it would be appropriate to continue to require it to use IAS.

In light of the unanimous agreement that there should be consistency between companies and friendly societies, HM Treasury will apply the changes made to company legislation to friendly societies.

Question 3:

Do you agree with the Government's proposal to extend two of the requirements of the Modernisation Directive to non-directive friendly societies?

7. Only the Association of Friendly Societies provided a direct response to this question, agreeing with the proposal. The Association noted that the additional requirements largely reflect best practice currently in place and the proposal was unlikely to introduce significant costs.
8. Both the Association and Cirencester Friendly Society asked how 'Key Performance Indicators', an analysis of which is required to be included in the friendly society's annual report, was to be understood in practice. The Modernisation Directive defines key performance indicators as "factors by reference to which the development, performance or position of the business of the society and any subsidiaries or jointly controlled bodies of the society, can be measured most effectively."

9. As Key Performance Indicators is a term used in the Modernisation Directive, the interpretation of the term is a matter for the European Commission. However, the Treasury notes that it is a commonly used term in both business and the public sector, where it is recognised that it is the responsibility of directors to decide what are the key factors driving the success of their business and what are the indicators that measure most effectively the performance of their business.

Question 4:

Do you agree with the Government's proposals to implement three of the relevant Member State options in the Modernisation Directive for directive friendly societies?

10. Where a response was provided, consultation respondents agreed with this proposal.

Question 5:

Can you:

- a) identify any costs or benefits for your organisation or more generally resulting from these proposals?*
- b) quantify these costs or benefits?*

11. Consultation respondents were not able to identify or quantify any costs or benefits. The Association broadly agreed with the figures provided in the consultation whereas Cirencester Friendly Society suggested that actual costs would likely exceed stated estimates.

Question 6:

Do you have any comments or suggestions on the drafting of the Regulations at Annex C?

12. It was suggested that the definition of Key Performance Indicators should be prescribed. However, the Government does not regard this as appropriate for the reasons outlined in paragraph 9. No other comments or suggestions were received.

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