

## EXPLANATORY MEMORANDUM TO THE PARLIAMENT

### FRIENDLY SOCIETIES (ACCOUNTS AND RELATED PROVISIONS) (AMENDMENT) REGULATIONS 2005

2005 No. [XXXX]

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

This memorandum contains information for the Joint Committee on Statutory Instruments.

#### 2. Description

- 2.1 This Statutory Instrument amends the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ("the 1994 Regulations") to update accounting requirements in certain areas to bring them more into line with current practice.

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

- 3.1 Some of the powers used to make these Regulations are being repealed and re-enacted by an order that comes into force on the same date as these Regulations. That Order is the Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Order 2005. The Order repeals section 70 of the Friendly Societies Act 1992 and re-enacts these powers in new sections 69B, 69C, 69F and 69G of the Act. The Regulations only quote the existing powers on the basis that section 17(2) of the Interpretation Act 1978 will apply

(a) so that the reference to the repealed subsections will be construed as a reference to the provision re-enacted; and

(b) to give effect to the Regulations as if they were made under the repealed provision.

#### 4. Legislative Background

- 4.1 The Regulations are being made to implement parts of the Modernisation of Accounting Directives<sup>1</sup> (the "Modernisation Directive") for friendly societies
- 4.2 The **Modernisation Directive** aims to enable undertakings to follow modern, more transparent accounting practices that are consistent with International Accounting Standards. It will apply to those undertakings which are not required to or which have chosen not to use those standards to prepare their accounts.

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<sup>1</sup> Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 83/349/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. OJ L178/16 of 17 July 2003.

- 4.3 The Modernisation Directive does this by amending the four EU Directives that form the basis of European accounting requirements:
- 1978 Fourth Directive on Company Accounts
  - 1983 Seventh Directive on Consolidated Accounts
  - 1986 Directive on Accounts for Banks and other Financial Institutions
  - 1991 Insurance Accounts Directive
- 4.4 These Regulations have adopted the same approach to implementation of the Modernisation Directive as that taken for companies by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004<sup>2</sup>. Those Regulations give effect to the IAS Regulation and implement the Modernisation Directive for **companies**.
- 4.5 The Modernisation Directive had an implementation deadline of 1 January 2005. Although the statutory instrument has been laid following this date, it applies to financial years of friendly societies ending on or after 1st October 2005, thus capturing the same financial year that began on 1 January 2005. As the Modernisation Directive is largely permissive, the later implementation will not have a significant impact on friendly societies.
- 4.6 The Government's approach to the Modernisation Directive has been to ensure that the UK's obligations are met whilst allowing flexibility without imposing unnecessary burdens on friendly societies. In addition, we have sought to ensure that there is consistency between companies and friendly societies, where appropriate. Transposition Notes for the IAS Regulation and the Modernisation Directive are attached in Annexes A1 and A2 respectively.
- 4.7 Scrutiny of the Modernisation Directive:
- DTI Explanatory Memorandum 9730/1/02 REV1 COM (2002) 25912 final was submitted on 26.02.02. Commons European Scrutiny Committee considered it politically important and cleared it (Report No 37, Item 23522, Session 01/02). Lords Select Committee on the EU cleared it on 09.07.02 (Progress of Scrutiny 22.07.02, Session 01/02).
  - DTI Explanatory Memorandum OTNYREM was submitted on 05.12.02. Commons European Scrutiny Committee considered it politically important and cleared it (Report No. 5, Item 24060, Session 02/03). Lords Select Committee on the EU did not report on it (Progress of Scrutiny 21.12.02, Session 02/03).

## **5. Extent**

- 5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

- 6.1 The Economic Secretary to the Treasury, Ivan Lewis, has made the following statement under section 19(1)(a) of the Human Rights Act 1998:

In my view the provisions of the Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2005 are compatible with the Convention rights.

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<sup>2</sup> S.I. 2004/2947.

## 7. Policy background

- 7.1 During 1999, the European Commission published a communication on “*Financial Services: Implementing the Framework for Financial Markets: Action Plan*”. In March 2000, Ministers of Member States at the Lisbon European Council concluded that, in order to accelerate completion of the internal market for financial services, steps should be taken to enhance the comparability of companies’ financial statements by 2005. The IAS Regulation<sup>3</sup> is the main result of this decision.
- 7.2 The **Modernisation Directive** is designed to remove conflicts between the Accounting Directives and IAS in existence at the time it was drawn up and ensure that optional accounting treatments currently available under IAS in existence at 1 May 2002 are available to EU undertakings which continue to have the Accounting Directives as the basis of their accounts (i.e. those undertakings which will not prepare their accounts in accordance with the IAS Regulation). In general, the Modernisation Directive amendments are technical amendments to existing accounting requirements.
- 7.3 Directives are not directly applicable in Member States and must be implemented through national law. The Government’s general approach to implementing the Modernisation Directive is to facilitate greater convergence between UK accounting standards and IAS, without imposing unnecessary burdens. Those who responded to the July 2004 consultation were largely supportive of the proposals.

## 8. Impact

- 8.1 A Transposition Note for the Modernisation Directive is attached to this Explanatory Memorandum as Annex A.
- 8.2 A Regulatory Impact Assessment is attached to this Explanatory Memorandum as Annex B.
- 8.3 There is no impact on the public sector as this Statutory Instrument only applies to friendly societies.

## 9. Contact

- 9.1 Nigel Fawcett at HM Treasury (Tel: 020 7270 4314 or email: [nigel.fawcett@hm-treasury.gov.uk](mailto:nigel.fawcett@hm-treasury.gov.uk)) can answer any queries regarding the instrument.

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<sup>3</sup> 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).