

Updating the accounting framework for friendly societies

A consultation document

July 2004



HM TREASURY



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SUMMARY AND QUESTIONS

1.1 The EU Regulation on International Accounting Standards¹ (the “IAS Regulation”) and the Modernisation of Accounting Directive² (the “Modernisation Directive”) have both been adopted in recent years by the European Commission with the aim of updating the accounting framework for EU entities. The British Government has supported the Regulation and the Directive as measures that should improve the transparency and accountability of financial reporting, aiding investors and increasing market confidence in reported results. In March this year, the DTI and HM Treasury published a joint consultation document³ for companies and building societies, asking for views on how we a) establish the infrastructure for use of IAS and b) implement the Modernisation Directive. This consultation document covers the same accounting issues for friendly societies.

1.2 We are consulting on two broad areas:

- changes to the Friendly Societies Act 1992 (the “1992 Act”) to ensure full effectiveness of the IAS Regulation and to permit friendly societies to choose whether to switch to IAS
- changes to the 1992 Act and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the “1994 Regulations”) to implement the Modernisation Directive

1.3 Friendly society law is an area which is reserved to Westminster under the Scottish, Welsh and Northern Irish devolution legislation and therefore these proposed changes will apply to friendly societies across the UK.

1.4 Different types of friendly societies will have varying levels of interest in these changes. A friendly society can be ‘incorporated’ (meaning it has chosen to incorporate under the 1992 Act) or it can be simply ‘registered’ (meaning it is unincorporated but registered as a friendly society under the Friendly Societies Act 1974). Some friendly societies are unregistered but the legislation which we are amending does not apply to them and neither do these proposals. In addition, a friendly society can be ‘directive’ or it can be ‘non-directive’, the key distinction being whether it falls under the 1991 Insurance Accounts Directive as a result of carrying on insurance business. The proposed changes giving effect to the IAS Regulation will be of interest to all incorporated and registered friendly societies, particularly larger ones with the potential capacity to issue traded securities. The changes implementing the Modernisation Directive will be of relevance mostly to directive friendly societies though a few changes will also apply to non-directive friendly societies.

Questions for consideration

1.5 Our approach to the IAS Regulation and the Modernisation Directive has been to promote the use of modern accounting practices whilst allowing flexibility and reducing unnecessary burdens on friendly societies. In addition, we have sought to ensure that there is consistency and a level playing field between friendly societies and companies, where this is appropriate. This consultation seeks views from respondents on how far the proposals discussed in this consultation meet these objectives. What these changes

¹ OJ L243/1 of 11 September 2002.

² OJ L178/16 of 17 July 2003

³ “Modernisation of Accounting Directives/IAS infrastructure”, 25 March 2004, URN 04/733. Available at www.dti.gov.uk/consultations or www.hm-treasury.x.gsi.gov.uk/consultations

involve and the context that has guided our proposals is discussed in more detail in the following sections. In light of this discussion, consultees are asked, in particular, to respond to the following questions, giving reasons for their views.

1. 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?

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

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

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?

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?

See Annexes D and E for details on costs and benefits.

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

Finally, please tell us what your particular interest is. For example, are you writing in a personal capacity, or on behalf of a large friendly society, a small friendly society, representative body, etc.

2

HOW TO REPLY

2.1 We invite comments by 15 September 2004 at the latest. Earlier responses would be very welcome.

2.2 This consultation has a two month consultation period, rather than the standard three. The decision to shorten the consultation period has been made to ensure that as much time as possible is left to consider consultation responses and to prepare and make Regulations to come into force before the deadline of 1 January 2005 (the date the IAS Regulation comes into force and by which the Modernisation Directive must be implemented).

2.3 Responses should be sent – by email, if at all possible – to the address below. Copies sent by post should be marked “Updating the accounting framework for friendly societies” on the envelope.

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2.4 All responses will be acknowledged. In accordance with the code of practice on open government, comments will be made publicly available unless respondents specifically request otherwise. Any email response sent from a corporate system may carry an automatically generated notice stating that the content of the message should be treated as confidential. If you are replying by email, please make it clear in the body of your response whether or not you wish your comments to be treated as confidential.

2.5 This document is available electronically at www.hm-treasury.gov.uk/consultations. You may also photocopy it if you wish or additional hard copies may be ordered, free of charge, from the HM Treasury correspondence unit by e-mail at ceu.enquiries@hm-treasury.gov.uk or by telephone on 020 7270 4558.

2.6 If you have questions about the issues discussed in this consultation document, please contact Ian Noon at the email address shown above or phone 18002 020 7270 5897.

3

PROPOSALS - POLICY

International Accounting Standards

3.1 One part of this consultation document concerns Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards¹ (the “IAS Regulation”) (attached at Annex A). The IAS Regulation introduces important changes that will directly affect the way in which certain undertakings across the EU prepare their financial statements. It does this by incorporating the accounting standards issued by the International Accounting Standards Board² (IASB) and adopted by the European Commission. The IAS Regulation will apply to financial years commencing on or after 1 January 2005.

3.2 The IAS Regulation, as an EU Regulation, is directly effective and binding on undertakings governed by UK law without a specific piece of UK implementing legislation. The need for UK legislation arises only to ensure that UK undertakings are able to comply with their EU obligations and so far as it is necessary to ensure that the IAS Regulation is fully effective in the UK.

3.3 Under Article 4 of the IAS Regulation, “companies” whose securities are admitted to trading on a regulated market in any Member State in the European Union (i.e. those which issue traded securities) will be required to prepare their consolidated accounts using IAS.

3.4 For the purpose of the IAS Regulation, “company” has the same meaning as in Article 48 (old Article 58) of the Treaty of Rome:

“Companies or firms” means companies or firms constituted under civil or commercial law, including cooperative societies, and other legal persons governed by public or private law, save for those which are non-profit-making”.

3.5 The European Commission has advised that friendly societies are covered by this definition of “company” and are therefore within the scope of the IAS Regulation. This means that any friendly societies which issue traded securities and which have subsidiaries for which consolidated accounts must be produced will be required to comply with Article 4 of the IAS Regulation.

3.6 At the time of writing, we are not aware of any friendly societies that currently issue traded securities. However, to ensure that any friendly societies that choose to issue traded securities in the future are able to meet the requirements imposed by the IAS Regulation, we will amend the 1992 Act.

3.7 Under Article 5 of the IAS Regulation, Member States have the option to extend the application of the Regulation. They may **permit** or **require**:

- companies which issue traded securities to prepare their individual accounts in accordance with adopted IAS;
- other companies to prepare their consolidated accounts and/or individual accounts with adopted IAS

¹ OJ L243/1 of 11 September 2002

² Accounting standards inherited by the IAS from its predecessor body (including those subsequently modified by the IASB) are called IAS. Completely new standards issued by the IASB will be called International Financial Reporting Standards (IFRS).

3.8 Following a public consultation³ in 2002, the DTI announced on 17 July 2003 that the application of the Regulation would be extended for companies on a permissive basis. In other words:

- companies which issue traded securities will be permitted to use IAS in their individual accounts; and
- all other companies will be permitted to use IAS in both their individual and/or consolidated accounts.

3.9 In considering whether to extend the option to choose to use IAS to all friendly societies, we have taken into account the different types of friendly societies (as outlined in paragraph 1.4). We are aware that IAS may be more useful and appropriate for directive and/or incorporated friendly societies than for non-directive and/or registered friendly societies. However, we favour a permissive approach believing that it is more sensible to leave the decision whether or not to use IAS to the individual friendly society.

3.10 We therefore propose to extend the application of the IAS Regulation for friendly societies in the same way as is proposed for companies and building societies. In other words, all friendly societies will be able to choose to prepare their individual and consolidated accounts in accordance with adopted IAS.

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

IAS infrastructure

3.11 It is necessary to amend the 1992 Act to permit any friendly societies which may, in due course, be required to prepare their accounts in accordance with IAS, to do so without breaching UK law. It is also necessary to include new provisions in the 1992 Act to allow friendly societies that do not fall within the mandatory provisions of the IAS Regulation to be able to choose to prepare their accounts in accordance with adopted IAS. In the March 2004 consultation document produced by the DTI and HM Treasury, a number of provisions on use of IAS for British companies were proposed. These were:

- the option to choose IAS will operate separately for individual accounts and for group accounts. In other words, a British parent company can elect to use IAS for its group accounts (where it is not required to) without having to use IAS for its individual accounts, and vice versa. We consider that it would be quite rare for a parent company to choose IAS for its consolidated accounts but not its individual accounts, or vice versa. However, a flexible approach was widely supported by respondents to the DTI 2002 consultation.
- the choice to use IAS should be “one way”. In other words, once a British company has chosen to use IAS, that choice cannot be reversed. This will ensure that British companies do not use the permission to misrepresent their position by switching between regimes depending on which shows their performance in a better light. One exception to this is proposed for British companies that become a subsidiary of an EEA undertaking that does not prepare its individual accounts in accordance with the IAS Regulation. It would not be appropriate to require the subsidiary to continue to use IAS if the parent did not use IAS.

³ “International Accounting Standards”, 30 August 2002, URN 02/1158. Available at www.dti.gov.uk/consultations

- that a British parent company shall ensure that the individual accounts of its subsidiary undertakings are prepared using an accounting framework consistent with the individual parent company accounts unless there are good reasons against it. An exception to this provision is proposed for parent companies required under the IAS Regulation to prepare their group accounts in accordance with IAS, who choose to present their individual accounts under IAS for consistency. In that case, the parent company need not ensure that all its subsidiaries use IAS, but should still ensure that the subsidiaries are consistent with one another.

3.12 Given that many life insurance undertakings, with which friendly societies compete, are companies registered under the Companies Acts, we believe there should be consistency between British companies and UK friendly societies for the purposes of the extension to the application of the Regulation. We therefore propose to apply the same provisions, set out above, to friendly societies as proposed for companies on use of IAS.

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

Interaction with other accounting regimes

3.13 The Accounting Standards Board's (ASB) standards will continue to apply to all UK entities that do not have to or choose not to prepare their accounts in accordance with the IAS Regulation. The ASB does not believe it is a credible option, except in the short term, to retain two different sets of standards in use in the UK. It therefore aims to bring UK standards into line with IASB standards. On 25 March 2004, the ASB published "UK Accounting Standards: A Strategy for Convergence with IFRS", a discussion paper setting out proposals for achieving this.⁴

3.14 Guidance from the European Commission on the interaction between the IAS Regulation and the Accounting Directives can be found at http://www.europa.eu.int/comm/internal_market/accounting/docs/ias/200311-comments/ias-200311-comments_en.pdf

The Modernisation Directive

3.15 The other part of this document concerns Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 (attached in Annex B). Known as the Modernisation Directive, this applies only to friendly societies covered by the Insurance Accounts Directive. Directives are not directly applicable in Member States and must be implemented through specific provisions in national law. Implementation will involve making amendments to the 1992 Act and the 1994 Regulations by way of secondary legislation. Member States must implement the Modernisation Directive by 1 January 2005.

3.16 The Directive is designed to bring European accounting requirements on several types of undertaking into line with modern accounting practices and to remove conflicts between the existing Accounting Directives and IAS in existence at the time it was drawn up. It requires Member States to make certain changes to national law concerning the form and content of these undertaking' accounts and the content of the directors' and auditors' reports. It also gives Member States options in some areas.

⁴ Accounting Standards Board press notice 234. Available at www.frc.org.uk/asb/press/pub0518

3.17 The Modernisation Directive achieves its objective by amending four existing Accounting Directives on which EU accounting requirements are primarily based. Those undertakings not caught by the mandatory aspects of the IAS Regulation and who choose not to take up the option of using IAS will continue to be required to prepare their accounts under the existing EU accounting regime. These existing four Accounting Directives are:

- 1978 Fourth Directive on Company Accounts⁵
- 1983 Seventh Directive on Consolidated Accounts⁶
- 1986 Directive on Accounts for Banks and other Financial Institutions⁷
- 1991 Insurance Accounts Directive⁸

3.18 The existing Accounting Directives each capture different and sometimes overlapping categories of undertakings. The Modernisation Directive needs to be implemented only insofar as the existing Accounting Directives it is amending already apply to a specific entity. Most friendly societies that carry on insurance business are caught by the 1991 Insurance Accounts Directive, hence the name ‘directive friendly societies’. (“Non-directive societies” is a term which is defined in the Friendly Societies (Accounts and Related Provisions) Regulations 1994). Directive friendly societies will be caught by amendments to this directive. The 1991 Insurance Accounts Directive also applies certain provisions of the 1978 Fourth Directive on Company Accounts to insurance undertakings. Therefore, amendments to this directive will also, indirectly, impact on directive friendly societies. Friendly societies fall outside of the scope of the other two existing Accounting Directives amended by the Modernisation Directive and so we do not propose to make any changes to friendly society legislation as a result of amendments to these accounting directives.

3.19 Although only directive friendly societies fall within the scope of the Modernisation Directive, we propose to extend part of two of the mandatory requirements of the Directive to non-directive friendly societies to avoid complicating the 1992 Act. These requirements relate to the audit reports and the directors’ reports.

3.20 In terms of the audit report, the increased requirement would be for the auditors to identify the accounting framework used and to describe the scope of the audit. The extension would also provide for increased flexibility in the opinions that the auditor can give (i.e. as well as being qualified or unqualified, the auditor may also draw attention to a matter by way of emphasis).

3.21 In terms of the directors’ report, all friendly societies are already required to produce a directors’ report containing a fair review of the development and performance of the business of the society. The increased requirement is for that review to include a comprehensive analysis of the development and performance of the business and to include a description of the principal risks facing the society. As the requirement is for the analysis to take into account the size and complexity of the

⁵ Fourth Council Directive of 25 July 1978 (78/660/EEC) based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies. OJ L222/11 of 14 August 1978.

⁶ Seventh Council Directive of 13 June 1983 (83/349/EEC) based on Article 54(3)(g) of the Treaty on consolidated accounts. OJ L193/1 of 18 July 1983.

⁷ Council Directive of 8 December 1986 (86/635/EEC) on the annual and consolidated accounts of banks and other financial institutions. OJ L372/1 of 31 December 1986.

⁸ Council Directive of 19 December 1991 (91/674/EEC) on the annual and consolidated accounts of insurance undertakings. OJ L374/7 of 31 December 1991

business, a less comprehensive analysis would be sufficient for smaller friendly societies. As well as ensuring legislative simplicity, an extension of this requirement would also provide for greater transparency and reporting on financial and non-financial matters. It may also better enable members to exercise effective and responsible control.

3.22 It appears that an extension of the audit report requirement would have minimal costs as these requirements are a reflection of best practice already in use. However, an extension of the directors' report requirement to non-directive friendly societies would likely result in an increase in the costs associated with producing the directors' report. It is difficult to get an accurate idea of what the extra costs would be for friendly societies but the DTI have estimated it may cost up to £1000 extra for companies (depending on the size of the company).⁹ In light of these costs and benefits, we would be grateful for views of consultees on whether it is sensible to extend these two requirements of the Modernisation Directive to non-directive friendly societies to ensure legislative simplicity.

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

3.23 As well as a number of mandatory changes, the Modernisation Directive also presents a range of options that Member States can choose to take up. Four of these options are applicable to directive friendly societies. Our general approach to implementing the Modernisation Directive is to facilitate greater convergence between UK accounting standards and IAS, without imposing unnecessary burdens. In addition, as with the IAS Regulation, we believe there should be consistency between companies and directive friendly societies. The proposals for companies were set out in the March 2004 DTI and HM Treasury consultation document for companies and building societies. In line with those proposals, we propose to take up three of the options as follows for directive friendly societies:

- the presentation of items within the balance sheet and income and expenditure accounts must have regard to the substance of the reported transaction or arrangement
- friendly societies will be permitted to account for their financial instruments at fair value¹⁰
- friendly societies will be permitted to account for investment property and biological assets at fair value

3.24 In line with the approach taken by the DTI for British companies, we do not propose to take up the following option for friendly societies:

- Insurance undertakings may be permitted or required to use different valuation methods for different elements of certain investments.

⁹ See pl 16 of the DTI and HM Treasury March 2004 consultation on Modernisation of Accounting Directives/IAS infrastructure.

¹⁰ The Fair Value Directive permits companies to do the same. This was consulted on in "Fair Value Accounting", June 2003, URN 03/960 (available at www.dti.gov.uk/consultations). The DTI intend that the Regulations implementing this Directive will be laid before Parliament with the Regulations giving effect to the IAS Regulation and implementing the Modernisation Directive for companies as a single set of Regulations in the autumn.

As insurance standards are in a state of transition (currently under review by the IASB), the Government believes it would be more appropriate to consider this when the situation is more settled.

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?

Regulatory Impact Assessments **3.25** Separate draft Regulatory Impact Assessments for the IAS Regulation and the Modernisation Directive can be found in Annexes D and E respectively. These attempt to identify and quantify the costs and benefits of these proposals.

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?

See Annexes D and E for details on costs and benefits.

4

PROPOSALS - DETAIL

4.1 This section acts as an explanatory note to the draft Regulations (the “Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Regulations 2004”), explaining the purpose and intention of the regulations.

4.2 The draft Regulations are split into five parts. Part 1 (Regulation 1) is introductory. Part 2 (Regulation 2) covers amendments to the 1992 Act that are necessary to enable friendly societies to be able to use International Accounting Standards. Part 3 (Regulations 3 to 6) covers amendments to the 1992 Act to implement the Modernisation Directive. Part 4 (Regulations 7 to 17) covers amendments to the 1994 Regulations (the “principal Regulations”) to implement the Modernisation Directive. Part 5 (Regulation 18) deals with transitional provisions.

Part 1 of the draft Regulations

Regulation 1 4.3 Regulation 1 provides for the Regulations to come into force on 1 December 2004 and that they apply to financial years of friendly societies starting on or after 1 January 2005.

Part 2 of the draft Regulations

Regulation 2 4.4 Previously, one section of the Friendly Societies Act 1992, section 69, imposed both the obligation to produce individual accounts and the obligation to produce group accounts. This was followed by section 70 on the contents and form of annual accounts. Regulation 2 replaces existing sections 69 and 70 of the 1992 Act with nine new sections. Firstly, sections 69A, 69B, 69C and 69D, which deal with the preparation of individual accounts of societies and secondly, 69E, 69F, 69G, 69H and 69I which deal with the preparation of group accounts by societies with subsidiary undertakings.

4.5 This regulation gives effect to the Government’s proposal to permit all friendly societies to choose whether to use IAS in the preparation of their accounts, even if they are not obliged to do so for their group accounts by the IAS Regulation. Section 69A(2) permits friendly societies to choose whether to prepare their individual accounts in accordance with provisions the 1992 Act and regulations made under it or with IAS. Section 69E(2) reflects the fact that if any friendly society chooses to issue traded securities in the future it will be required to prepare their consolidated accounts in accordance with IAS. Section 69E(3) provides that friendly societies that do not issue traded securities can choose to prepare their group accounts in accordance with the 1992 Act or with IAS.

4.6 Sections 69A(2) and 69E(3) are subject to section 69I which provides that friendly societies shall, in most circumstances, ensure that the individual accounts of the friendly society and their subsidiaries are prepared using the same financial reporting requirement (i.e. either adopted IAS or UK GAAP), unless there are good reasons for not doing so. This requirement is limited to those subsidiaries that have to prepare accounts under Part VII of the Companies Act 1985 (or the Northern Ireland equivalent). However, the individual accounts of a friendly society with subsidiaries do not have to be prepared using the same financial reporting framework as those of the subsidiaries, where a friendly society would be required by the IAS Regulation to use IAS for its consolidated accounts, and has chosen to do so for its individual accounts.

4.7 In the interests of consistency and comparability, it is proposed in section 69A(3) and 69E(4) that friendly societies choosing to prepare their accounts (both individual and group accounts) under IAS, must continue to do so in subsequent financial years. However, this requirement will not apply if a friendly society preparing accounts under the IAS becomes a subsidiary of an EEA undertaking which prepares accounts on a non-IAS basis.

4.8 Sections 69B(1) and 69F(1) set out which documents must be contained in individual Friendly Societies Act accounts and group Friendly Societies Act accounts respectively. The requirements have not altered from those previously contained in section 69 of the Act, but they are now split into two sections, one for individual accounts and one for group accounts. These sections also contain the requirement for the accounts to give a true and fair view and what steps the directors of a friendly society may take to ensure that the accounts do give a true and fair view. The provisions relating to a true and fair view were previously contained in section 70 of the Act.

4.9 Sections 69C and 69G, set out the regulation making powers for prescribing the form and contents of Friendly Societies Act individual accounts and group accounts respectively. Each of these sections also retains the duty for a friendly society management committee member, officer or employee to provide the information necessary to enable the society to comply with its obligations under the regulations to disclose information about financial interests of or payments to its officers and employees.

4.10 To aid users of accounts, it is proposed in section 69D and 69H that friendly societies preparing accounts under IAS should be required to disclose this fact in the notes to their accounts.

Part 3 of the draft Regulations

Regulation 3 **4.11** This regulation implements Articles 1.14 and 2.10 of the Modernisation Directive which require more detail to be provided in the management committee's annual report and more analysis of risk to be included. The increased detail is required for reports of both individual undertakings and groups of undertakings. It amends section 71 of the Friendly Societies Act 1992 in line with the directive requirements.

Regulations 4 and 5 **4.12** These regulations implement Articles 1.15, 1.16 and 1.18 of the Modernisation Directive concerning the audit reports of individual companies, and Article 2.11 concerning the audit reports of groups. By specifying matters to be covered in auditors' reports, Article 1.18 of the Modernisation Directive seeks to achieve greater harmonisation and reflect best practice concerning the format and content of audit reports, which currently differ across Member States. Auditing in Britain is in line with best practice, so the amendments required are relatively minor. One of the more significant changes is that, in future, the auditors will need to identify the financial reporting framework applied in the preparation of the accounts.

4.13 Regulation 4 amends section 73 of the Friendly Societies Act 1986 to include new requirements for the contents of the auditor's report.

4.14 Regulation 5 amends section 74 of the Act to require auditor's reports to be signed and dated by the auditor.

Regulation 6 **4.15** Regulation 6 gives effect to the Schedule to these Regulations that contains consequential amendments to the Act, made as a result of changes in these Regulations.

Part 4 of the draft Regulations

- Regulations 7 and 8** **4.16** These regulations amend cross-references in the principal Regulations to provisions of the 1992 Act which have been replaced.
- Regulation 9** **4.17** Regulation 9 implements Article 1.2 of the Modernisation Directive and applies to directive friendly societies. Member States may permit or require the presentation of amounts in the accounts to have regard to the substance of the reported transaction. We propose to implement this as a requirement rather than as a permission so that accounts must reflect the substance of the transaction. It is important that formats do not create excessive rigidity and become an obstacle to presenting items in the most meaningful way.
- Regulation 10** **4.18** Regulation 10 inserts a new regulation 11A into the principal accounts which implements the requirements of the Directive regarding how an undertaking may publish its accounts. If a directive friendly society publishes statutory accounts they are required to accompany those accounts with the relevant auditors' report. If a directive friendly society publishes non-statutory accounts it must also publish with those accounts certain information about its statutory accounts and its auditors' report.
- Regulation 11** **4.19** Regulation 11 alters part 1 of Schedule 2 of the principal Regulations so that it no longer refers to 'provisions for other risks and charges' but to 'provisions for other risks'.
- Regulation 12** **4.20** This implements Article 3.2 of the Modernisation Directive by altering the title in the layout of the balance sheet so that it no longer refers to "provisions for liabilities and charges" but to "provisions for liabilities".
- Regulation 13** **4.21** Regulation 13 inserts a new section 2A into Schedule 6 of the principal Regulations which sets out what the management committee's annual report must contain in terms of review and analysis of the business of the friendly society and its subsidiaries (if it has subsidiary undertakings). The main change is that the report must now contain a comprehensive analysis of the performance of the business, using key performance indicators where appropriate.
- Regulation 14** **4.22** Regulation 14 amends Schedule 6 of the principal Regulations so as to provide friendly societies with the option to include certain types of assets in their accounts at fair value.
- Regulation 15** **4.23** Regulation 15 inserts new Part 4A into Schedule 6 to the principal Regulations so as to specify which assets can be accounted for at fair value and how this is to be done. It gives effect to the option presented in the new regulation 13.
- 4.24** New paragraph 24A specifies what financial instruments can be included in the accounts at fair value. For example, derivative financial instruments are included but non-derivative financial instruments which are held to maturity and loans and receivables originated by the society and not held for trading purposes may not be included at fair value. Liabilities may only be included at fair value if they are held as part of a trading portfolio or are derivative financial instruments.
- 4.25** New paragraph 24B specifies the methods for determining fair value. Where a reliable market can readily be found for a financial instrument, the fair value should be determined by reference to its market value. But where this is not possible, two alternative methods are specified: for fair value to be determined by reference to the market value of the components of the financial instrument, or where this does not

apply, the value resulting from generally accepted valuation models and techniques. Where the fair value of an instrument cannot be determined by reference to any of the three methods specified by the amendments, the instrument cannot be included at fair value.

4.26 New paragraph 24C permits friendly societies to include hedged items at fair value. This is a Member State option under which societies may be permitted to include any assets and liabilities which qualify as hedged items under a fair value hedge accounting system, or identified portions of such assets or liabilities, at the amount required under the system.

4.27 New paragraph 24D permits friendly societies to account for investment property and biological assets at fair value, as well as financial instruments.

4.28 New paragraph 24E specifies how changes in the value of a financial instrument which has been included at fair value are to be accounted for by inclusion in the income and expenditure account or crediting or debiting (as appropriate) the change in value to the fair value reserve.

4.29 New paragraph 24F makes provision for the fair value reserve. Amounts may be transferred from the fair value reserve only when they are realised, relate to taxation, are no longer necessary for the purposes of new paragraph 24E(3) or (4) of Schedule 6 or are otherwise unnecessary for the purposes of the valuation method used.

Regulation 16 4.30 Regulation 16 amends Schedule 5 to the principal Regulations (notes to the accounts) so as to require information about fair valuation to be given in the notes to a society's accounts where fair value accounting has been used. It does this by inserting new paragraphs 33 and 34 to the Schedule.

Regulation 17 4.31 Regulation 17 amends Schedule 9 to the principal Regulations (interpretation of schedules) by inserting relevant definitions into the regulations. Certain terms are to have the same meaning as in Directive 78/660/EEC (the Accounting Directive). Many of these terms are not, in fact, defined by that Directive but rely on accounting standards for their interpretation. The European Commission made clear in the explanatory memorandum to 78/660/EEC that this was deliberate and entirely consistent with the principles that have underpinned the Accounting Directives since their adoption. They argue that such definitions would become outdated very quickly.

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

I

(Acts whose publication is obligatory)

**REGULATION (EC) No 1606/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 19 July 2002
on the application of international accounting standards**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 95(1) thereof,

Having regard to the proposal from the Commission ⁽¹⁾,

Having regard to the opinion of the Economic and Social Committee ⁽²⁾,

Acting in accordance with the procedure laid down in Article 251 of the Treaty ⁽³⁾,

Whereas:

- (1) The Lisbon European Council of 23 and 24 March 2000 emphasised the need to accelerate completion of the internal market for financial services, set the deadline of 2005 to implement the Commission's Financial Services Action Plan and urged that steps be taken to enhance the comparability of financial statements prepared by publicly traded companies.
- (2) In order to contribute to a better functioning of the internal market, publicly traded companies must be required to apply a single set of high quality international accounting standards for the preparation of their consolidated financial statements. Furthermore, it is important that the financial reporting standards applied by Community companies participating in financial markets are accepted internationally and are truly global standards. This implies an increasing convergence of accounting standards currently used internationally with the ultimate objective of achieving a single set of global accounting standards.
- (3) Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies ⁽⁴⁾,

Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts ⁽⁵⁾, Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions ⁽⁶⁾ and Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance companies ⁽⁷⁾ are also addressed to publicly traded Community companies. The reporting requirements set out in these Directives cannot ensure the high level of transparency and comparability of financial reporting from all publicly traded Community companies which is a necessary condition for building an integrated capital market which operates effectively, smoothly and efficiently. It is therefore necessary to supplement the legal framework applicable to publicly traded companies.

- (4) This Regulation aims at contributing to the efficient and cost-effective functioning of the capital market. The protection of investors and the maintenance of confidence in the financial markets is also an important aspect of the completion of the internal market in this area. This Regulation reinforces the freedom of movement of capital in the internal market and helps to enable Community companies to compete on an equal footing for financial resources available in the Community capital markets, as well as in world capital markets.
- (5) It is important for the competitiveness of Community capital markets to achieve convergence of the standards used in Europe for preparing financial statements, with international accounting standards that can be used globally, for cross-border transactions or listing anywhere in the world.
- (6) On 13 June 2000, the Commission published its Communication on 'EU Financial Reporting Strategy: the way forward' in which it was proposed that all publicly traded Community companies prepare their consolidated

⁽¹⁾ OJ C 154 E, 29.5.2001, p. 285.

⁽²⁾ OJ C 260, 17.9.2001, p. 86.

⁽³⁾ Opinion of the European Parliament of 12 March 2002 (not yet published in the Official Journal) and Decision of the Council of 7 June 2002.

⁽⁴⁾ OJ L 222, 14.8.1978, p. 11. Directive as last amended by European Parliament and Council Directive 2001/65/EC (OJ L 283, 27.10.2001, p. 28).

⁽⁵⁾ OJ L 193, 18.7.1983, p. 1. Directive as last amended by European Parliament and Council Directive 2001/65/EC.

⁽⁶⁾ OJ L 372, 31.12.1986, p. 1. Directive as last amended by European Parliament and Council Directive 2001/65/EC.

⁽⁷⁾ OJ L 374, 31.12.1991, p. 7.

financial statements in accordance with one single set of accounting standards, namely International Accounting Standards (IAS), at the latest by 2005.

- (7) International Accounting Standards (IASs) are developed by the International Accounting Standards Committee (IASC), whose purpose is to develop a single set of global accounting standards. Further to the restructuring of the IASC, the new Board on 1 April 2001, as one of its first decisions, renamed the IASC as the International Accounting Standards Board (IASB) and, as far as future international accounting standards are concerned, renamed IAS as International Financial Reporting Standards (IFRS). These standards should, wherever possible and provided that they ensure a high degree of transparency and comparability for financial reporting in the Community, be made obligatory for use by all publicly traded Community companies.
- (8) The measures necessary for the implementation of this Regulation should be adopted in accordance with Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission⁽¹⁾ and with due regard to the declaration made by the Commission in the European Parliament on 5 February 2002 concerning the implementation of financial services legislation.
- (9) To adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise — this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of those Directives; secondly that, in accordance with the conclusions of the Council of 17 July 2000, it is conducive to the European public good and lastly that it meets basic criteria as to the quality of information required for financial statements to be useful to users.
- (10) An accounting technical committee should provide support and expertise to the Commission in the assessment of international accounting standards.
- (11) The endorsement mechanism should act expeditiously on proposed international accounting standards and also be a means to deliberate, reflect and exchange information on international accounting standards among the main parties concerned, in particular national accounting standard setters, supervisors in the fields of securities, banking and insurance, central banks including the ECB, the accounting profession and users and preparers of

accounts. The mechanism should be a means to foster common understanding of adopted international accounting standards in the Community.

- (12) In accordance with the principle of proportionality, the measures provided for in this Regulation, in requiring that a single set of international accounting standards be applied to publicly traded companies, are necessary to achieve the objective of contributing to the efficient and cost-effective functioning of Community capital markets and thereby to the completion of the internal market.
- (13) In accordance with the same principle, it is necessary, as regards annual accounts, to leave to Member States the option to permit or require publicly traded companies to prepare them in conformity with international accounting standards adopted in accordance with the procedure laid down in this Regulation. Member States may decide as well to extend this permission or this requirement to other companies as regards the preparation of their consolidated accounts and/or their annual accounts.
- (14) In order to facilitate an exchange of views and to allow Member States to coordinate their positions, the Commission should periodically inform the accounting regulatory committee about active projects, discussion papers, point outlines and exposure drafts issued by the IASB and about the consequential technical work of the accounting technical committee. It is also important that the accounting regulatory committee is informed at an early stage if the Commission intends not to propose to adopt an international accounting standard.
- (15) In its deliberations on and in elaborating positions to be taken on documents and papers issued by the IASB in the process of developing international accounting standards (IFRS and SIC-IFRIC), the Commission should take into account the importance of avoiding competitive disadvantages for European companies operating in the global marketplace, and, to the maximum possible extent, the views expressed by the delegations in the Accounting Regulatory Committee. The Commission will be represented in constituent bodies of the IASB.
- (16) A proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement.

⁽¹⁾ OJ L 184, 17.7.1999, p. 23.

- (17) Further, it is necessary to allow Member States to defer the application of certain provisions until 2007 for those companies publicly traded both in the Community and on a regulated third-country market which are already applying another set of internationally accepted standards as the primary basis for their consolidated accounts as well as for companies which have only publicly traded debt securities. It is nonetheless crucial that by 2007 at the latest a single set of global international accounting standards, the IAS, apply to all Community companies publicly traded on a Community regulated market.
- (18) In order to allow Member States and companies to carry out the necessary adaptations to make the application of international accounting standards possible, it is necessary to apply certain provisions only in 2005. Appropriate provisions should be put in place for the first-time application of IAS by companies as a result of the entry into force of the present regulation. Such provisions should be drawn up at international level in order to ensure international recognition of the solutions adopted,

83/349/EEC and are conducive to the European public good and,

- they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

3. At the latest by 31 December 2002, the Commission shall, in accordance with the procedure laid down in Article 6(2), decide on the applicability within the Community of the international accounting standards in existence upon entry into force of this Regulation.

4. Adopted international accounting standards shall be published in full in each of the official languages of the Community, as a Commission Regulation, in the *Official Journal of the European Communities*.

Article 4

Consolidated accounts of publicly traded companies

For each financial year starting on or after 1 January 2005, companies governed by the law of a Member State shall prepare their consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2) if, at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field ⁽¹⁾.

Article 5

Options in respect of annual accounts and of non publicly-traded companies

Member States may permit or require:

- (a) the companies referred to in Article 4 to prepare their annual accounts,
- (b) companies other than those referred to in Article 4 to prepare their consolidated accounts and/or their annual accounts,

in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2).

Article 6

Committee procedure

1. The Commission shall be assisted by an accounting regulatory committee hereinafter referred to as 'the Committee'.
2. Where reference is made to this paragraph, Articles 5 and 7 of Decision 1999/468/EC shall apply, having regard to the provisions of Article 8 thereof.

⁽¹⁾ OJ L 141, 11.6.1993, p. 27. Directive as last amended by European Parliament and Council Directive 2000/64/EC (OJ L 290, 17.11.2000, p. 27).

HAVE ADOPTED THIS REGULATION:

Article 1

Aim

This Regulation has as its objective the adoption and use of international accounting standards in the Community with a view to harmonising the financial information presented by the companies referred to in Article 4 in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the Internal Market.

Article 2

Definitions

For the purpose of this Regulation, 'international accounting standards' shall mean International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB).

Article 3

Adoption and use of international accounting standards

1. In accordance with the procedure laid down in Article 6(2), the Commission shall decide on the applicability within the Community of international accounting standards.
2. The international accounting standards can only be adopted if:
 - they are not contrary to the principle set out in Article 2(3) of Directive 78/660/EEC and in Article 16(3) of Directive

The period laid down in Article 5(6) of Decision 1999/468/EC shall be set at three months.

3. The Committee shall adopt its rules of procedure.

Article 7

Reporting and coordination

1. The Commission shall liaise on a regular basis with the Committee about the status of active IASB projects and any related documents issued by the IASB in order to coordinate positions and to facilitate discussions concerning the adoption of standards that might result from these projects and documents.

2. The Commission shall duly report to the Committee in a timely manner if it intends not to propose the adoption of a standard.

Article 8

Notification

Where Member States take measures by virtue of Article 5, they shall immediately communicate these to the Commission and to other Member States.

Article 9

Transitional provisions

By way of derogation from Article 4, Member States may provide that the requirements of Article 4 shall only apply for

each financial year starting on or after January 2007 to those companies:

- (a) whose debt securities only are admitted on a regulated market of any Member State within the meaning of Article 1(13) of Directive 93/22/EEC; or
- (b) whose securities are admitted to public trading in a non-member State and which, for that purpose, have been using internationally accepted standards since a financial year that started prior to the publication of this Regulation in the *Official Journal of the European Communities*.

Article 10

Information and review

The Commission shall review the operation of this Regulation and report thereon to the European Parliament and to the Council by 1 July 2007 at the latest.

Article 11

Entry into force

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Communities*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 19 July 2002.

For the European Parliament

The President

P. COX

For the Council

The President

T. PEDERSEN

**DIRECTIVE 2003/51/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 18 June 2003**

amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 44(1) thereof,

Having regard to the proposal from the Commission ⁽¹⁾,

Having regard to the opinion of the European Economic and Social Committee ⁽²⁾,

Acting in accordance with the procedure laid down in Article 251 of the Treaty ⁽³⁾,

Whereas:

- (1) The Lisbon European Council of 23-24 March 2000 emphasised the need to accelerate completion of the internal market for financial services, set the deadline of 2005 for implementation of the Commission's Financial Services Action Plan and urged that steps be taken to enhance the comparability of financial statements prepared by Community companies whose securities are admitted to trading on a regulated market (hereinafter: listed companies).
- (2) On 13 June 2000, the Commission published its Communication entitled 'EU Financial Reporting Strategy: The Way Forward' in which it was proposed that all listed companies prepare their consolidated accounts in accordance with one single set of accounting standards, namely International Accounting Standards (IAS), at the latest by 2005.
- (3) 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⁾ (hereinafter: the IAS Regulation) introduced the requirement that, from 2005 onwards, all listed companies prepare their consolidated accounts in accordance with IAS adopted for application within the Community. It also provided an option for Member States to permit or require the application of adopted IAS in the preparation of annual accounts and to permit or require the application of adopted IAS by unlisted companies.

- (4) The IAS Regulation provides that, to adopt an international accounting standard for its application in the Community, it is necessary that it meets the basic requirement of the Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies ⁽⁵⁾ and of the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts ⁽⁶⁾, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise — this principle being considered in the light of the said Directives without implying a strict conformity with each and every provision of those Directives.
- (5) As the annual and consolidated accounts of undertakings covered by Directives 78/660/EEC and 83/349/EEC which are not prepared in accordance with the IAS Regulation will continue to have those Directives as the primary source of their Community accounting requirements, it is important that a level playing field exists between Community companies which apply IAS and those which do not.
- (6) For the purposes both of the adoption of IAS and the application of Directives 78/660/EEC and 83/349/EEC, it is desirable that those Directives reflect developments in international accounting. In this respect, the Communication of the Commission entitled 'Accounting Harmonisation: A New Strategy vis-à-vis International Harmonisation' called for the European Union to work to maintain consistency between Community Accounting Directives and developments in international accounting standard setting, in particular within the International Accounting Standards Committee (IASC).
- (7) Member States should be able to modify the presentation of the profit and loss account and balance sheet in accordance with international developments, as expressed through standards issued by the International Accounting Standards Board (IASB).
- (8) Member States should be able to permit or require the application of revaluations and of fair value in accordance with international developments, as expressed through standards issued by the IASB.

⁽¹⁾ OJ C 227 E, 24.9.2002, p. 336.

⁽²⁾ OJ C 85, 8.4.2003, p. 140.

⁽³⁾ Opinion of the European Parliament of 14 January 2003 (not yet published in the Official Journal), and Council Decision of 6 May 2003.

⁽⁴⁾ OJ L 243, 11.9.2002, p. 1.

⁽⁵⁾ OJ L 222, 14.8.1978, p. 11. Directive as last amended by Directive 2001/65/EC of the European Parliament and of the Council (OJ L 283, 27.10.2001, p. 28).

⁽⁶⁾ OJ L 193, 18.7.1983, p. 1. Directive as last amended by Directive 2001/65/EC.

(9) The annual report and the consolidated annual report are important elements of financial reporting. Enhancement, in line with current best practice, of the existing requirement for these to present a fair review of the development of the business and of its position, in a manner consistent with the size and complexity of the business, is necessary to promote greater consistency and give additional guidance concerning the information a 'fair review' is expected to contain. The information should not be restricted to the financial aspects of the company's business. It is expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position. This is consistent also with Commission Recommendation 2001/453/EC of 30 May 2001 on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies⁽¹⁾. However, taking into account the evolving nature of this area of financial reporting and having regard to the potential burden placed on undertakings below certain sizes, Member States may choose to waive the obligation to provide non-financial information in the case of the annual report of such undertakings.

(10) Differences in the preparation and presentation of the audit report reduce comparability and detract from the user's understanding of this vital aspect of financial reporting. Increased consistency should be achieved by amendments, consistent with current international best practice, to the specific requirements concerning the format and content of an audit report. The fundamental requirement that an audit opinion states whether the annual or consolidated accounts give a true and fair view in accordance with the relevant financial reporting framework does not represent a restriction of the scope of that opinion but clarifies the context in which it is expressed.

(11) Directives 78/660/EEC and 83/349/EEC should accordingly be amended. Furthermore, it is also necessary to amend Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions⁽²⁾.

(12) The IASB is developing and refining the accounting standards applicable to insurance activities.

(13) Insurance undertakings should also be allowed to use fair-value accounting as expressed through appropriate standards issued by the IASB.

(14) Consequently Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings⁽³⁾ should be amended.

⁽¹⁾ OJ L 156, 13.6.2001, p. 33.

⁽²⁾ OJ L 372, 31.12.1986, p. 1. Directive as last amended by Directive 2001/65/EC.

⁽³⁾ OJ L 374, 31.12.1991, p. 7.

(15) These amendments will remove all inconsistencies between Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the one hand and IAS in existence at 1 May 2002, on the other,

HAVE ADOPTED THIS DIRECTIVE:

Article 1

Directive 78/660/EEC is hereby amended as follows:

1. in Article 2(1) the following subparagraph shall be added:

'Member States may permit or require the inclusion of other statements in the annual accounts in addition to the documents referred to in the first subparagraph.'

2. in Article 4, the following paragraph shall be added:

'6. Member States may permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction or arrangement. Such permission or requirement may be restricted to certain classes of company and/or to consolidated accounts as defined in the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts (*).

(*) OJ L 193, 18.7.1983, p. 1. Directive as last amended by Directive 2001/65/EC of the European Parliament and of the Council (OJ L 283, 27.10.2001, p. 28).';

3. in Article 8 the following paragraph shall be added:

'Member States may permit or require companies to adopt the presentation of the balance sheet set out in Article 10a as an alternative to the layouts otherwise prescribed or permitted.'

4. in Article 9, under 'Liabilities', in point B, the title 'Provisions for liabilities and charges' shall be replaced by 'Provisions';

5. in Article 10, point J, the title 'Provisions for liabilities and charges' shall be replaced by 'Provisions';

6. the following Article shall be inserted:

'Article 10a

Instead of the presentation of balance sheet items in accordance with Articles 9 and 10, Member States may permit or require companies, or certain classes of company, to present those items on the basis of a distinction between current and non-current items provided that the information given is at least equivalent to that otherwise required by Articles 9 and 10.'

7. Article 20 shall be amended as follows:

Article 42f

(a) Paragraph 1 shall be replaced by the following:

'1. Provisions are intended to cover liabilities the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they will arise.;

Notwithstanding Article 31(1)(c), Member States may permit or require in respect of all companies or any classes of company that, where an asset is valued in accordance with Article 42e, a change in the value is included in the profit and loss account.;

(b) Paragraph 3 shall be replaced by the following:

'3. Provisions may not be used to adjust the values of assets.;

13. in Article 43(1)(6) the reference to 'Articles 9 and 10' shall be replaced by a reference to 'Articles 9, 10 and 10a';

8. in Article 22, the following paragraph shall be added:

'By way of derogation from Article 2(1), Member States may permit or require all companies, or any classes of company, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 23 to 26, provided that the information given is at least equivalent to that otherwise required by those Articles.;

14. Article 46 shall be amended as follows:

(a) paragraph 1 shall be replaced by the following:

'1. (a) The annual report shall include at least a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces.

9. Article 31 shall be amended as follows:

(a) in paragraph 1(c), point (bb) shall be replaced by the following:

'(bb) account must be taken of all liabilities arising in the course of the financial year concerned or of a previous one, even if such liabilities become apparent only between the date of the balance sheet and the date on which it is drawn up.;

The review shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business;

(b) the following paragraph shall be inserted:

'(1a) In addition to those amounts recorded pursuant to paragraph (1)(c)(bb), Member States may permit or require account to be taken of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one, even if such liabilities or losses become apparent only between the date of the balance sheet and the date on which it is drawn up.;

(b) To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters;

(c) In providing its analysis, the annual report shall, where appropriate, include references to and additional explanations of amounts reported in the annual accounts.;

10. in Article 33(1), point (c) shall be replaced by the following:

'(c) revaluation of fixed assets';

(b) the following paragraph shall be added:

'4. Member States may choose to exempt companies covered by Article 27 from the obligation in paragraph 1(b) above in so far as it relates to non-financial information.;

11. in Article 42, the first paragraph shall be replaced by the following:

'Provisions may not exceed in amount the sums which are necessary.;

15. in Article 48, the third sentence shall be deleted;

12. the following Articles shall be inserted:

'Article 42e

By way of derogation from Article 32, Member States may permit or require in respect of all companies or any classes of company the valuation of specified categories of assets other than financial instruments at amounts determined by reference to fair value.

Such permission or requirement may be restricted to consolidated accounts as defined in Directive 83/349/EEC.

16. in Article 49, the third sentence shall be replaced by the following:

'The report of the person or persons responsible for auditing the annual accounts (hereinafter: the statutory auditors) shall not accompany this publication, but it shall be disclosed whether an unqualified, qualified or adverse audit opinion was expressed, or whether the statutory auditors were unable to express an audit opinion. It shall also be disclosed whether the report of the statutory auditors included a reference to any matters to which the statutory auditors drew attention by way of emphasis without qualifying the audit opinion.;

17. Article 51(1) shall be replaced by the following:

'1. The annual accounts of companies shall be audited by one or more persons approved by Member States to carry out statutory audits on the basis of the Eighth Council Directive 84/253/EEC of 10 April 1984 on the approval of persons responsible for carrying out the statutory audits of accounting documents (*).

The statutory auditors shall also express an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year.

(*) OJ L 126, 12.5.1984, p. 20.;

18. the following Article shall be inserted:

'Article 51a

1. The report of the statutory auditors shall include:
 - (a) an introduction which shall at least identify the annual accounts that are the subject of the statutory audit, together with the financial reporting framework that has been applied in their preparation;
 - (b) a description of the scope of the statutory audit which shall at least identify the auditing standards in accordance with which the statutory audit was conducted;
 - (c) an audit opinion which shall state clearly the opinion of the statutory auditors as to whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework and, where appropriate, whether the annual accounts comply with statutory requirements; the audit opinion shall be either unqualified, qualified, an adverse opinion or, if the statutory auditors are unable to express an audit opinion, a disclaimer of opinion;
 - (d) a reference to any matters to which the statutory auditors draw attention by way of emphasis without qualifying the audit opinion;
 - (e) an opinion concerning the consistency or otherwise of the annual report with the annual accounts for the same financial year.
2. The report shall be signed and dated by the statutory auditors.;

19. Article 53(1) shall be deleted;

20. the following Article shall be inserted:

'Article 53a

Member States shall not make available the exemptions set out in Articles 11, 27, 46, 47 and 51 in the case of companies whose securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field (*).

(*) OJ L 141, 11.6.1993, p. 27. Directive as last amended by Directive 2002/87/EC of the European Parliament and of the Council (OJ L 35, 11.2.2003, p. 1).;

21. in Article 56(1) the reference to 'Articles 9, 10' shall be replaced by a reference to 'Articles 9, 10, 10a';
22. in Article 60, first paragraph, the words 'on the basis of their market value' shall be replaced by 'on the basis of their fair value';
23. in Article 61a, the reference to 'Articles 42a to 42d' shall be replaced by a reference to 'Articles 42a to 42f'.

Article 2

Directive 83/349/EEC is hereby amended as follows:

1. in Article 1, paragraph 2 shall be replaced by the following:
 - '2. Apart from the cases mentioned in paragraph 1 the Member States may require any undertaking governed by their national law to draw up consolidated accounts and a consolidated annual report if:
 - (a) that undertaking (a parent undertaking) has the power to exercise, or actually exercises, dominant influence or control over another undertaking (the subsidiary undertaking); or
 - (b) that undertaking (a parent undertaking) and another undertaking (the subsidiary undertaking) are managed on a unified basis by the parent undertaking.;
2. in Article 3(1), the reference to 'Articles 13, 14 and 15' shall be replaced by a reference to 'Articles 13 and 15';
3. Article 6 shall be amended as follows:
 - (a) paragraph 4 shall be replaced by the following:
 - '4. This Article shall not apply where one of the undertakings to be consolidated is a company whose securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field (*).
 - (b) paragraph 5 shall be deleted;
4. Article 7 shall be amended as follows:
 - (a) in paragraph 1(b), the second sentence shall be deleted;
 - (b) in paragraph 2(a), the reference to 'Articles 13, 14 and 15' shall be replaced by a reference to 'Articles 13 and 15';
 - (c) paragraph 3 shall be replaced by the following:
 - '3. This Article shall not apply to companies whose securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Directive 93/22/EEC.;
5. in Article 11(1)(a) the reference to 'Articles 13, 14 and 15' shall be replaced by a reference to 'Articles 13 and 15';
6. Article 14 shall be deleted;

7. in Article 16(1) the following subparagraph shall be added:

'Member States may permit or require the inclusion of other statements in the consolidated accounts in addition to the documents referred to in the first subparagraph.:'

8. in Article 17(1) the reference to 'Articles 3 to 10' shall be replaced by a reference to 'Articles 3 to 10a';

9. Article 34 shall be amended as follows:

(a) in point (2)(b) the terms 'Articles 13 and 14 and, without prejudice to Article 14(3),' shall be replaced by a reference to 'Article 13 and';

(b) in point (5) the words 'and those excluded pursuant to Article 14' shall be deleted;

10. Article 36 shall be amended as follows:

(a) paragraph 1 shall be replaced by the following:

'1. The consolidated annual report shall include at least a fair review of the development and performance of the business and of the position of the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The review shall be a balanced and comprehensive analysis of the development and performance of the business and of the position of the undertakings included in the consolidation taken as a whole, consistent with the size and complexity of the business. To the extent necessary for an understanding of such development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters.

In providing its analysis, the consolidated annual report shall, where appropriate, provide references to and additional explanations of amounts reported in the consolidated accounts.;

(b) The following paragraph shall be added:

'3. Where a consolidated annual report is required in addition to an annual report, the two reports may be presented as a single report. In preparing such a single report, it may be appropriate to give greater emphasis to those matters which are significant to the undertakings included in the consolidation taken as a whole.:'

11. Article 37 shall be replaced by the following:

'Article 37

1. The consolidated accounts of companies shall be audited by one or more persons approved by the Member State whose laws govern the parent undertaking to carry

out statutory audits on the basis of the Eighth Council Directive 84/253/EEC of 10 April 1984 on the approval of persons responsible for carrying out the statutory audits of accounting documents (*).

The person or persons responsible for auditing the consolidated accounts (hereinafter: the statutory auditors) shall also express an opinion concerning the consistency or otherwise of the consolidated annual report with the consolidated accounts for the same financial year.

2. The report of the statutory auditors shall include:

(a) an introduction which shall at least identify the consolidated accounts which are the subject of the statutory audit, together with the financial reporting framework that has been applied in their preparation;

(b) a description of the scope of the statutory audit which shall at least identify the auditing standards in accordance with which the statutory audit was conducted;

(c) an audit opinion which shall state clearly the opinion of the statutory auditors as to whether the consolidated accounts give a true and fair view in accordance with the relevant financial reporting framework and, where appropriate, whether the consolidated accounts comply with statutory requirements; the audit opinion shall be either unqualified, qualified, an adverse opinion or, if the statutory auditors are unable to express an audit opinion, a disclaimer of opinion;

(d) a reference to any matters to which the statutory auditors draw attention by way of emphasis without qualifying the audit opinion;

(e) an opinion concerning the consistency or otherwise of the consolidated annual report with the consolidated accounts for the same financial year.

3. The report shall be signed and dated by the statutory auditors.

4. Where the annual accounts of the parent undertaking are attached to the consolidated accounts, the report of the statutory auditors required by this Article may be combined with any report of the statutory auditors on the annual accounts of the parent undertaking required by Article 51 of Directive 78/660/EEC.

(*) OJ L 126, 12.5.1984, p. 20.;

12. in Article 38, the following paragraph shall be added:

'7. Paragraphs 2 and 3 shall not be applied in respect of companies whose securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Directive 93/22/EEC.'

Article 3

Directive 86/635/EEC is hereby amended as follows:

1. in Article 1, paragraphs 1 and 2 shall be replaced by the following:

'1. Articles 2, 3, 4(1), (3) to (6), Articles 6, 7, 13, 14, 15(3) and (4), Articles 16 to 21, 29 to 35, 37 to 41, 42 first sentence, 42a to 42f, 45(1), 46(1) and (2), Articles 48 to 50, 50a, 51(1) and 51a, 56 to 59, 61 and 61a of Directive 78/660/EEC shall apply to the institutions mentioned in Article 2 of this Directive, except where this Directive provides otherwise. However, Articles 35(3), 36, 37 and 39(1) to (4) of this Directive shall not apply with respect to assets and liabilities that are valued in accordance with Section 7a of Directive 78/660/EEC.

2. Where reference is made in Directives 78/660/EEC and 83/349/EEC to Articles 9, 10 and 10a (balance sheet) or to Articles 22 to 26 (profit and loss account) of Directive 78/660/EEC, such references shall be deemed to be references to Articles 4 and 4a (balance sheet) or to Articles 26, 27 and 28 (profit and loss account) of this Directive.;

2. Article 4 shall be amended as follows:

- (a) the first sentence shall be replaced by the following:

'The Member States shall prescribe the following layout for the balance sheet. As an alternative, Member States may permit or require credit institutions to adopt the presentation of the balance sheet set out in Article 4a.;

- (b) under 'Liabilities', in point 6, the title 'Provisions for liabilities and charges' shall be replaced by 'Provisions';

3. the following Article shall be inserted:

'Article 4a

Instead of the presentation of balance sheet items in accordance with Article 4, Member States may permit or require credit institutions, or certain classes of credit institution, to present those items classified by their nature and in order of their relative liquidity provided that the information given is at least equivalent to that otherwise required by Article 4.;

4. in Article 26, the following paragraph shall be added:

'By way of derogation from Article 2(1) of Directive 78/660/EEC, Member States may permit or require all credit institutions, or any classes of credit institution, to present a statement of their performance instead of the presentation of profit and loss items in accordance with Articles 27 or 28, provided that the information given is at least equivalent to that otherwise required by those Articles.;

5. Article 43(2)(f) shall be deleted.

Article 4

Directive 91/674/EEC is hereby amended as follows:

1. in Article 1, paragraphs 1 and 2 shall be replaced by the following:

'1. Articles 2, 3, 4(1), (3) to (6), 6, 7, 13, 14, 15(3) and (4), 16 to 21, 29 to 35, 37 to 41, 42, 42a to 42f, 43(1), points 1 to 7 and 9 to 14, 45(1), 46(1) and (2), 48 to 50, 50a, 51(1), 51a, 56 to 59, 61 and 61a of Directive 78/660/EEC shall apply to the undertakings mentioned in Article 2 of this Directive, except where this Directive provides otherwise. Articles 46, 47, 48, 51 and 53 of this Directive shall not apply in respect of assets and liabilities that are valued in accordance with Section 7a of Directive 78/660/EEC.

2. Where reference is made in Directives 78/660/EEC and 83/349/EEC to Articles 9, 10 and 10a (balance sheet) or to Articles 22 to 26 (profit and loss account) of Directive 78/660/EEC, such references shall be deemed to be references to Article 6 (balance sheet) or to Article 34 (profit and loss account) of this Directive as appropriate.;

2. Article 4 shall be replaced by the following:

'Article 4

1. This Directive shall apply to the association of underwriters known as Lloyd's. For the purpose of this Directive both Lloyd's and Lloyd's syndicates shall be deemed to be insurance undertakings.

2. By way of derogation from Article 65(1), Lloyd's shall prepare aggregate accounts instead of consolidated accounts required by Directive 83/349/EEC. Aggregate accounts shall be prepared by cumulation of all syndicate accounts.;

3. in Article 6, under 'Liabilities', in point E, the title 'Provisions for other risks and charges' shall be replaced by 'Other provisions';

4. Article 46 shall be amended as follows:

- (a) in paragraph 5, the following sentence shall be added:

'Member States may permit derogations from this requirement.;

- (b) paragraph 6 shall be replaced by the following:

'6. The method(s) applied to each investment item shall be stated in the notes on the accounts, together with the amounts so determined.;

5. the following Article shall be inserted:

'Article 46a

1. Where assets and liabilities are valued in accordance with Section 7a of Directive 78/660/EEC, paragraphs 2 to 6 of this Article shall apply.

2. The investments shown as assets under D shall be shown at their fair value.

3. Where investments are shown at their purchase price, their fair value shall be disclosed in the notes on the accounts.

4. Where investments are shown at their fair value, their purchase price shall be disclosed in the notes on the accounts.

5. The same valuation method shall be applied to all investments included in any item denoted by an arabic numeral or shown as assets under C(l). Member States may permit derogations from this requirement.

6. The method(s) applied to each investment item shall be stated in the notes on the accounts, together with the amounts so determined.;

6. the Annex shall be deleted.

Article 5

Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 1 January 2005 at the latest. They shall forthwith inform the Commission thereof.

When Member States adopt these measures, they shall contain a reference to this Directive or shall be accompanied by such a reference on the occasion of their official publication. The methods of making such reference shall be laid down by the Member States.

Article 6

This Directive shall enter into force on the day of its publication in the *Official Journal of the European Union*.

Article 7

This Directive is addressed to the Member States.

Done at Luxembourg, 18 June 2003.

For the European Parliament

The President

P. COX

For the Council

The President

G. DRYS

 STATUTORY INSTRUMENTS

2004 No.

FRIENDLY SOCIETIES

The Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Regulations 2004

<i>Made</i> - - - -	2004
<i>Laid before Parliament</i>	2004
<i>Coming into force</i> - -	2004

The Treasury, being a government department designated (a) for the purposes of section 2(2) of the European Communities Act 1972 (b) in relation to the regulation of Friendly Societies, in exercise of the powers conferred by that section, hereby make the following Regulations:

PART 1

General

Citation, commencement and interpretation

1.—(1) These Regulations may be cited as the Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

(2) These Regulations come into force on 1st December 2004 and have effect as respects friendly societies' financial years which begin on or after 1st January 2005 ("the commencement date").

(3) In these Regulations –

- (a) "the 1992 Act" means the Friendly Societies Act 1992(c);
- (b) "the principal Regulations" means the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (d);
- (c) references to numbered schedules are to Schedules to the principal Regulations.

(a) The European Communities (Designation) (No. 3) Order 2001 S.I. 2001/3495
 (b) 1972 c. 68
 (c) 1992 c. 40
 (d) S.I. 1994/1983

PART 2

Accounts prepared in accordance with international accounting standards

Preparation of individual and group accounts in accordance with the IAS Regulation

2. For sections 69 and 70 of the 1992 Act substitute —

“69A. Duty to prepare individual accounts

(1) The management committee of every friendly society or registered branch must prepare accounts for the society (or branch) for each of its financial years.

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

(2) The individual accounts of a friendly society or registered branch of a society may be prepared –

- (a) in accordance with section 69B (“Friendly Societies Act individual accounts”), or
- (b) in accordance with international accounting standards (“IAS individual accounts”).

This subsection is subject to subsection (3) and section 69I (consistency of accounts).

(3) Where the management committee of a friendly society have prepared IAS individual accounts for a society or branch for a financial year, they must prepare all subsequent individual accounts for that society or branch in accordance with international accounting standards.

(4) Subsection (3) does not apply if the society becomes a subsidiary undertaking of another EEA undertaking and that EEA undertaking does not prepare IAS individual accounts.

(5) In this section “EEA undertaking” means an undertaking established under the law of any part of the United Kingdom or the law of any other EEA State.

69B. Friendly Societies Act individual accounts

(1) Friendly 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 the affairs of the society or branch 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 or branch for the financial year.

(3) Friendly Societies Act individual accounts must comply with the requirements of regulations made under section 69C 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 or branch’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 management committee 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 or branch's Friendly 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 or branch's Friendly Societies Act individual accounts; and
 - (d) reduce the classes of documents to be comprised in a society's or branch's Friendly Societies Act individual accounts.
- (8) Regulations under subsection (7) –
- (a) may make different provision for different cases, 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.

69C. Contents and form of Friendly Societies Act individual accounts

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

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

(3) Without prejudice to the generality of subsection (1) and (2), the regulations may–

- (a) prescribe accounting principles and rules;
- (b) require corresponding information for a preceding financial year;
- (c) require the accounts of societies to deal also with any jointly controlled bodies;
- (d) make different provision for different descriptions of society;
- (e) require the accounts to give particulars of the emoluments, pensions, compensation for loss of office and financial interests of members of the committee of management, other officers and employees of prescribed descriptions of the society.

(4) It is the duty of every member of the management committee, other officer and employee of a friendly society as respects whom particulars are required to be given in the accounts by virtue of subsection (3)(e) above, to give notice of such matters to the society as may be necessary to enable the society to give those particulars in the accounts.

(5) 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.

69D. IAS individual accounts

Where the management committee of a friendly society prepare IAS individual accounts for a society or branch, they must state in the notes to those accounts that the accounts have been prepared in accordance with international accounting standards.

69E. Duty to prepare group accounts

(1) If at the end of a financial year an incorporated friendly society has subsidiary undertakings, the management committee, as well as preparing individual accounts for the year, must prepare group accounts, except as provided by regulations under subsection (7) below.

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

(2) Certain societies are obliged by Article 4 of the IAS Regulation to prepare their group accounts in accordance with international accounting standards (“IAS group accounts”).

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

- (a) in accordance with section 69F (“Friendly 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 and section 69I (consistency of accounts).

(4) Where the management committee of a friendly society have prepared IAS group accounts for a financial year, they must prepare all subsequent group accounts for the society in accordance with international accounting standards.

(5) Subsection (4) does not apply if the society becomes a subsidiary undertaking of another EEA undertaking and that EEA undertaking does not prepare IAS group accounts.

(6) In this section “EEA undertaking” means an undertaking established under the law of any part of the United Kingdom or the law of any other EEA State.

(7) The Treasury may by regulations exempt specified descriptions of incorporated friendly societies with subsidiaries from any duty to prepare group accounts. Such regulations may exempt societies by reference to any criterion and may make different provision for different descriptions of societies.

(8) 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.

(9) The management committee 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.

69F. Friendly Societies Act group accounts

(1) Friendly Societies Act group accounts shall be consolidated accounts comprising –

- (a) a consolidated balance sheet dealing with the state of affairs of the society and its subsidiary undertakings;
- (b) a consolidated income and expenditure account dealing with the income and expenditure of the society and its subsidiary undertakings.

(2) The 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 the members of the society.

(3) Friendly Societies Act group accounts must comply with the requirements of regulations made under section 69G 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 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 management committee 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 Friendly 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 Friendly Societies Act group accounts; and
 - (d) reduce the classes of documents to be comprised in a society's Friendly 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 which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

69G. Contents and form of Friendly Societies Act group accounts

- (1) The Treasury shall by regulations make provision with respect to the contents and form of Friendly Societies Act group accounts.
- (2) The Treasury may by regulations make provision with respect to additional information to be contained in Friendly 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) require the accounts of societies to deal also with their jointly controlled bodies;
 - (d) make different provision for different descriptions of society; and
 - (e) require the accounts to give particulars of the emoluments, pensions, compensation for loss of office and financial interests of members of the management committee, other officers and employees of prescribed descriptions of the society.
- (4) It is the duty of every member of the management committee, other officers and employee of a friendly society as respects whom particulars are required to be given in the accounts, by virtue of subsection (3)(e) above, to give notice of such matters to the society as may be necessary to enable the society to give those particulars in the accounts.
- (5) 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.

69H. IAS group accounts

Where the management committee of a friendly 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.

69I. Consistency of accounts

- (1) The management committee of a friendly society that prepares group accounts must secure that the same financial reporting framework is applied in the preparation of –
- (a) the individual accounts of its subsidiary undertakings,
 - (b) the individual accounts of the friendly society, and
 - (c) the individual accounts of the society's registered branches
- 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 either
- (a) required to be prepared under Part 7 of the Companies Act 1985 (a), or
 - (b) are companies within the meaning of the Companies (Northern Ireland) Order 1986 (b) incorporated in Northern Ireland.
- (3) Subsection (1) does not require accounts of undertakings which are charities to be prepared using the same financial reporting framework as accounts of undertakings which are not charities.
- (4) Subsection (1)(b) does not apply where –
- (a) the management committee of an incorporated friendly society are required to prepare IAS group accounts under Article 4 of the IAS Regulation, and
 - (b) the friendly society prepares IAS individual accounts.”

PART 3

Other modifications of Friendly Societies Act provisions relating to accounts

Contents of the committee of management’s annual report

3.—(1) Section 71 of the 1992 Act (committee of management’s annual report) is amended as follows.

- (2) In subsection (1) for paragraph (a) substitute –
- “(a) a fair review of the business of the society during the financial year, and of its position at the end of it complying with subsection (1A); and
 - (aa) a description of the principal risks and uncertainties facing the society; and”
- (3) After subsection (1) insert –
- “(1A) The review required for the purposes of sections 71(1) and (2) is a balanced and comprehensive analysis of the development and performance of the business of the society and any subsidiaries it has or bodies which it jointly controls and of their position, consistent with the size and complexity of the business.”
- (4) In subsection (2) for paragraph (b) substitute –
- “(b) contain a fair review of the business of any such subsidiaries and bodies during the financial year, and their position at the end of it complying with subsection (1A);
 - (bb) contain a description of the principal risks and uncertainties facing any such subsidiaries and bodies; and”

Contents of the auditors’ report

4.—(1) Section 73 of the 1992 Act is amended as follows.

- (2) For subsection (4) substitute –
- “(4) The auditors shall, in their report, state whether the report of the committee of management, in the auditors’ opinion
 - (a) is consistent with the annual accounts of the society for the same financial year; and
 - (b) has been prepared in accordance with this Act and the regulations made under it.”
- (3) For subsection (5) substitute –

(a) 1985 c. 6
(b) S.I. 1032/1986 (N.I. 6)

“(5A) The auditors’ report shall 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.

(5B) The report shall 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).

(5C) The report shall state in particular whether the annual accounts give a true and fair view in accordance with the relevant financial reporting framework –

- (a) in the case of an individual balance sheet, or the state of affairs of the society or branch 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 or branch for the financial year,
- (c) in the case of the group accounts of an incorporated friendly society, of the state of affairs as at the end of the financial year and of the income and expenditure for the financial year, of the undertakings included in the consolidation as a whole, so far as concerns members of the society.

(5D) The auditors’ report –

- (a) shall be either unqualified or qualified, and
- (b) shall include a reference to any matters to which the auditors wish to draw attention by way of emphasis without qualifying the report.”

(4) Subsection (6) is revoked.

(5) Subsection (7) is revoked.

Dating of the auditors’ report

5. In section 74 of the 1992 Act (signature of auditors’ report), after “signed” insert “and dated”.

6. The Schedule to these Regulations (consequential amendments to the 1992 Act) has effect.

PART 4

Amendments to the Friendly Societies (Accounts and Related Provisions) Regulations 1994

Amendment of Regulation 2

7. In regulation 2 for the words “section 69” substitute “section 69E”.

Amendment of Regulation 7

8. In regulation 7(3) for the words “subsections (2) and (3) of section 70” substitute “subsection (2) of section 69F”.

Insertion of new Regulation 10A

9. After regulation 10 insert the following –

“Accounts to have regard to substance of a transaction

10A. The management committee of a society shall, in determining how amounts are presented within items in the income and expenditure account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.”

Insertion of new Regulation 11A

10. After regulation 11 insert the following –

“Requirements in connection with publication of accounts

11A.—(1) If a society publishes any of its statutory accounts, they must be accompanied by the relevant auditors’ report under section 73 of the Act.

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

(3) If a society publishes non-statutory accounts, it shall publish them with 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 73 on the statutory accounts for any financial year with which the non-statutory accounts purport to deal; 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 73(3) of the Act (failure to obtain necessary information and explanations)

and it shall not publish with any non-statutory accounts any auditors’ report under section 73 of the Act.

(4) For the purposes of this regulation a society shall be 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 regulation to a society’s statutory accounts are to its annual accounts as required to be laid before the society under section 78 of the Act; 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 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 of the company

otherwise than as part of the society’s statutory accounts.”

Amendment of Schedule 2

11. In Part 1 of Schedule 2, in the Balance Sheet Format, under the heading “LIABILITIES”, for “Provisions for other risks and charges” substitute “Provisions for other risks”.

Amendment of Schedule 4

12. In sub-paragraphs 19(1)(b) and (c) of Schedule 4 (reserves and provisions) for “provisions for liabilities and charges” substitute “provisions for liabilities”.

Amendment of Schedule 6

13.—(1) After paragraph 2 of Schedule 6, insert the following –

“2A.—(1) The business review in the committee of management’s annual report must, to the extent necessary for an understanding of the development, performance or position of the business of the society and any subsidiaries it has or bodies it jointly controls, 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.

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

(3) In this paragraph “key performance indicators” means 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.”

(2) In paragraph 4(b) of Schedule 6 omit “and losses” and “or are likely to arise”.

Valuation at fair value

14.—(1) In sub-paragraph 8(1)(a) of Schedule 6 for “must be determined in accordance with that paragraph” substitute “may be determined in accordance with that paragraph or with paragraphs 24A, 24C or 24D”.

(2) In sub-paragraph 8(1)(b) of Schedule 6 after, (“the historical cost accounting rules”) insert “or with paragraphs 24A, 24C or 24D”.

(3) In paragraph 9 of Schedule 6 after “denoted by an arabic number” insert, “or shown as assets under CI in the balance sheet”.

(4) In sub-paragraph 12(2) of Schedule 6 after “paragraph 10 above” insert, “or with paragraphs 24A, 24C or 24D.”.

Fair value method of valuation for assets

15. After paragraph 24 of Schedule 6, insert –

“Part IVA

Valuation at Fair Value

Inclusion of financial instruments at fair value

24A.—(1) Subject to sub-paragraphs (2) to (4), financial instruments, including derivative financial instruments, may be included at fair value.

(2) Sub-paragraph (1) only applies to financial instruments which constitute liabilities if –

- (a) they are held as part of a trading portfolio; or
- (b) they are derivative financial instruments.

(3) Sub-paragraph (1) does not apply to –

- (a) non-derivative financial instruments held to maturity;
- (b) loans and receivables originated by the society and not held for trading purposes;
- (c) interests in connected undertakings or joint ventures;
- (d) equity instruments issued by the society;
- (e) contracts for contingent consideration in a business combination; and
- (f) other financial instruments with such special characteristics that the instruments, according to generally accepted accounting principles or practice, should be accounted for differently from other financial instruments.

(4) If the fair value of a financial instrument cannot be determined reliably in accordance with paragraph 24B, sub-paragraph (1) does not apply to that financial instrument.

(5) In this paragraph “joint venture” means an undertaking, other than a connected undertaking, which a society manages jointly with one or more undertakings.

Methods for determining “fair value”

24B.—(1) The fair value of a financial instrument is its value determined in accordance with this paragraph.

(2) If a reliable market can readily be identified for the financial instrument, its fair value is to be determined by reference to its market value.

(3) If a reliable market cannot readily be identified for the financial instrument but can be identified for its components or for a similar instrument, its fair value is to be determined by reference to the market value of its components or of the similar instrument.

(4) If neither sub-paragraph (2) nor (3) apply, the fair value of the financial instrument is to be a value resulting from generally accepted valuation models and techniques.

(5) Any valuation models and techniques used for the purposes of sub-paragraph (4) must ensure a reasonable approximation of the market value.

Hedged items

24C. A society may include any assets and liabilities, or identified portions of such assets or liabilities, which qualify as hedged items under a fair value hedge accounting system, at the amount required under that system.

Other assets which may be included at fair value

24D.—(1) This paragraph applies to –

- (a) investment property, and
- (b) living animals and plants,

that under international accounting standards may be included in accounts at fair value.

(2) Such investment property and such living animals and plants may be included at fair value, provided that all such investment property, or as the case may be, all such living animals and plants are so included where their fair value can be reliably determined.

(3) In this paragraph “fair value” means fair value determined in accordance with relevant accounting standards.”

Accounting for changes in value of financial instruments

24E.—(1) This paragraph applies where a financial instrument is valued in accordance with paragraph 24A or 24C.

(2) Notwithstanding paragraph 4 in Part I of this Schedule, and subject to sub-paragraphs (3) and (4) below, a change in the value of the financial instrument shall be included in the income and expenditure account.

- (3) Where –
- (a) the financial instrument accounted for is a hedging instrument under a hedge accounting system that allows some or all of the change in value not to be shown in the income and expenditure account, or
 - (b) the change in value relates to an exchange difference arising on a monetary item that forms part of a society’s net investment in a foreign entity,
- the amount of change in value shall be credited to or (as the case may be) debited from a separate reserve (“the fair value reserve”).
- (4) Where the instrument accounted for –
- (a) is an available for sale financial asset, and
 - (b) is not a derivative financial instrument,
- the difference in value may be credited to or (as the case may be) debited from the fair value reserve.

The fair value reserve

24F.—(1) The fair value reserve shall be adjusted to the extent that the amounts shown in it are no longer necessary for the purposes of paragraph 24E (3) or (4).

(2) The treatment for taxation purposes of amounts credited or debited to the fair value reserve shall be disclosed in a note to the accounts.”.

Information about fair value in notes to the accounts

16. After paragraph 32 of Schedule 5 (notes to the annual accounts), insert –

“Information about fair value of assets and liabilities

33.—(1) This paragraph applies where financial instruments have been valued in accordance with paragraph 24A or 24C of Schedule 6.

(2) There shall be stated in the notes to the accounts –

- (a) the significant assumptions underlying the valuation models and techniques used where the fair value of the instruments has been determined in accordance with paragraph 24B(4) of that Schedule;
- (b) for each category of financial instrument, the fair value of the instruments in that category and the changes in their value –
 - (i) included in the income and expenditure account, and
 - (ii) credited to or (as the case may be) debited from the fair value reserve,
 in respect of instruments in that category; and
- (c) for each class of derivative financial instruments, the extent and nature of the instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

(3) Where any amount is transferred to or from the fair value reserve during the financial year, there shall be stated in tabular form –

- (a) the amount of the reserve as at the date of the beginning of the financial year and as at the balance sheet date respectively;
- (b) the amount transferred to or from the reserve during that year; and
- (c) the source and application respectively of the amounts so transferred.

(4) Where investments are shown at their purchase price, their fair value shall be disclosed in the notes on the accounts.

(5) Where investments are shown at their fair value, their purchase price shall be disclosed in the notes to the accounts.

(6) The valuation method applied to each investment item shall be stated in the notes to the accounts, together with the amounts so determined.

Information where investment property or living animals and plants included at fair value

34.—(1) This paragraph applies where the amounts to be included in a society’s accounts in respect of investment property or living animals and plants have been determined in accordance with paragraph 24D.

(2) The balance sheet items affected and the basis of valuation adopted in determining the amounts of the assets in question in the case of each such item shall be disclosed in a note to the accounts.

(3) In the case of investment property, for each balance sheet item affected there shall be shown, either separately in the balance sheet or in a note to the accounts –

- (a) the comparable amounts determined according to the historical cost accounting rules; or
- (b) the differences between those amounts and the corresponding amounts actually shown in the balance sheet in respect of that item.

(4) In sub-paragraph (3) above, references in relation to any item to the comparable amounts determined in accordance with that sub-paragraph are references to –

- (a) the aggregate amount which would be required to be shown in respect of that item if the amounts to be included in respect of all the assets covered by that item were determined according to the historical cost accounting rules; and
- (b) the aggregate amount of the cumulative provisions for depreciation or diminution in value which would be permitted or required in determining those amounts according to those rules.”.

Amendment of Schedule 9

17.—(1) Schedule 9 (interpretation of schedules) is amended as follows.

(2) In paragraph 7(3) –

- (a) for “provisions for liabilities and charges” substitute “provisions for liabilities”;
- (b) for “or loss” substitute “the nature of which is clearly defined and”.

(3) In paragraph 10 (other definitions), before the definition of “fungible assets”, insert –

“fair value reserve” has the meaning given by paragraph 24D of Schedule 6;”.

(4) After paragraph 10, insert –

“Financial instruments

11. References to “derivative financial instruments” are deemed to include commodity-based contracts that give either contracting party the right to settle in cash or some other financial instrument, except when such contracts –

- (a) were entered into in order to meet the society’s expected purchase, sale or usage requirements and continue to meet those requirements;
- (b) were designated for such purpose at their inception; and
- (c) are expected to be settled by delivery of the commodity.

Further Expressions

12.—(1) The expressions listed in sub-paragraph (2) have the same meaning as they have in Council Directive 78/660/EEC (a), and for the purposes of those expressions, it shall be assumed that a society is subject to the provisions of that Directive.

(2) “Available for sale financial asset”, “business combination”, “cash flow risk”, “commodity-based contracts”, “credit risk”, “equity instrument”, “exchange difference”, “fair value hedge accounting system”, “financial fixed asset”, “financial instrument”, “foreign entity”, “hedge accounting”, “hedge accounting system”, “hedged items”, “hedging instrument”, “held to maturity”, “held for trading purposes”, “liquidity risk”, “monetary item”, “price risk”, “receivables”, “reliable market” and “trading portfolio”.”.

PART 5**Transitional provisions****Regulations made under sections 69 and 70**

18.—(1) Regulations made under section 69 of the 1992 Act (exemptions from duty to prepare group accounts) and in force immediately before the commencement date shall have effect as if made under section 69E of that Act (inserted by these Regulations).

(2) Regulations made under section 70 of the 1992 Act (documents included in and contents and form of annual accounts) and in force immediately before the commencement date shall have effect as if made under sections 69B, 69C, 69F and 69G of that Act (inserted by these Regulations).

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2004

Two of the Lords Commissioners of Her Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make 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). They also implement 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). A Transposition Note

(a) OJ L 222, 14.8.1978, p. 11; as amended by Council Directive 83/349/EEC, Council Directive 84/569/EEC, Council Directive 89/666/EEC, Council Directive 90/604/EEC, Council Directive 90/605/EEC, Council Directive 94/8/EC, Council Directive 1999/60/EC and European Parliament and Council Directive 2001/65/EC.

showing how the main provisions of this Directive (as it applies to friendly societies) will be transposed into UK law is available from HM Treasury (details to be inserted).

SCHEDULE

Consequential amendments to the 1992 Act

Regulation 6

1. In section 68(2) of the 1992 Act (accounting records), in each of paragraphs (b) and (c), after “or the 1974 Act” insert “(and, where applicable, Article 4 of the IAS Regulation)”.

2. After section 78 of the 1992 Act insert –

“78A Interpretation of Part 6

(1) In this Part –

“annual accounts”, in relation to a friendly society, means –

- (a) the individual accounts required by section 69A, and
- (b) any group accounts required by section 69E,

together with the notes to those accounts;

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

(2) References in this Part to accounts giving a “true and fair view” are references –

- (a) in the case of Friendly Societies Act individual accounts, to the requirement under section 69B that such accounts give a true and fair view;
- (b) in the case of Friendly Societies Act group accounts, to the requirement under section 69F that such accounts give a true and fair view; and
- (c) in the case of IAS accounts, to the equivalent requirement under international accounting standards.”

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

PARTIAL REGULATORY IMPACT ASSESSMENT: IAS REGULATION

1. PROPOSAL

D.1 The Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 insofar as it gives effect to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of Ministers of 19 July 2002 on the application of International Accounting Standards (the “IAS Regulation”).

2. PURPOSE AND INTENDED EFFECT

Objective D.2 The objective of the proposal is to increase comparability, consistency and transparency of accounts, giving friendly societies the option to use IAS whilst keeping the burden on them to a minimum.

D.3 The IAS Regulation requires friendly societies that issue traded securities to prepare their consolidated accounts in accordance with adopted IAS. In addition, all friendly societies will be permitted to choose to prepare their individual and consolidated accounts in accordance with IAS issued by the International Accounting Standards Board (IASB) and adopted by the European Commission (where they are not required to do so). Friendly societies will equally be able to continue preparing their accounts under UK legislation and in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

D.4 For friendly societies that choose to issue traded securities in the future, adherence to adopted IAS may help to reduce the cost of capital because their accounts will be more accessible to potential investors across the EU and worldwide. For potential investors, creditors and other users of financial statements, adopted IAS will provide a consistent accounting framework to facilitate comparison of the performance and prospects of undertakings across the EU. For friendly societies without traded securities, adopted IAS may in some cases reduce barriers to growth by allowing them to prepare their accounts under IAS prior to application for listing.

D.5 In the UK, the Accounting Standards Board’s (ASB) accounting standards apply to all friendly societies. ASB and IASB standards are in many cases very similar, although there are also a number of differences. The ASB does not believe it is a credible option, except in the short term, to retain two different sets of accounting standards in the UK. It therefore aims to bring UK standards into line with IASB standards. Therefore, friendly societies which choose to continue to prepare their accounts under UK GAAP may nonetheless be applying standards which are very similar to adopted IAS.

Devolution D.6 Responsibility for friendly society law matters lies with the Chancellor of the Exchequer. Friendly society law is an area which is reserved to Westminster under the Scottish, Welsh and Northern Irish devolution legislation and therefore any resulting changes to legislation will also apply in Scotland, Wales and Northern Ireland.

Background D.7 During 1999, the European Commission published a communication on “Financial Services: Implementing the Framework for Financial Markets: Action Plan”. In March 2000, at the Lisbon European Council, Ministers of Member States concluded that, in order to accelerate completion of the internal market for financial services, steps should be taken to enhance the comparability of financial statements by 2005.

D.8 Consequently, in February 2001 the European Commission published a proposal for a Regulation on the application of IAS in the EU, as a key element of its Financial Services Action Plan. It aimed to harmonise financial reporting in the EU on the basis of globally agreed accounting standards by 2005.

D.9 The IAS Regulation was adopted on 7 June 2002. It requires publicly traded companies and other undertakings with traded securities governed by the laws of a Member State to prepare their consolidated accounts on the basis of accounting standards issued by the IASB and adopted by the European Commission, from 1 January 2005.

D.10 The IAS Regulation contains options allowing Member States to permit or require:

- companies and other undertakings with traded securities to prepare their individual accounts in accordance with adopted IAS;
- other companies and undertakings that do not issue traded securities to prepare their consolidated and/or individual accounts in accordance with adopted IAS.

D.11 For any friendly societies covered by the IAS Regulation and any extension to it, adopted IAS will replace all the detailed accounting provisions of the existing EU Accounting Directives. Where they apply to friendly societies, these provisions have been transposed into British legislation, in the Friendly Societies Act 1992 and regulations made under it. The IAS Regulation does not require legislative action by the Member State to transpose it into domestic law other than that required to make the IAS Regulation effective in domestic law and that is required to permit the friendly societies to whom the Regulation is being extended the choice of using adopted IAS.

Risk assessment **D.12** Not extending the application of the IAS Regulation, at least to some friendly societies, could create an artificial barrier to growth. For example, friendly societies without traded securities to which the IAS Regulation did not apply might be deterred from obtaining admission to trading on a regulated market by the need to restate their past accounts to adopted IAS to provide the necessary three year record. It would also be more complicated for any friendly society that chooses to issue traded securities to prepare group accounts if they and their subsidiary companies were unable to prepare their individual accounts to adopted IAS. In addition, level playing field issues arise unless there is consistency between companies and friendly societies.

3. OPTIONS

D.13 There are many permutations of the Member State options for extending the application of the IAS Regulation, from no extension, through extension to friendly societies of certain types, size, or business sector, to full extension to all friendly societies. These options can be either permissive or mandatory. For purposes of simplicity, the three main overarching options are listed below:

Option 1: No extension

D.14 The risks of not acting to extend the application of the IAS Regulation are discussed in paragraph D.12 above.

Option 2: Full mandatory extension

D.15 This would increase the burden on friendly societies, especially smaller ones. IAS has many reporting requirements that are more suitable for larger businesses, and there is currently no international equivalent of the ASB's reporting standard for small companies (the FRSSE).

Option 3: Full permissive extension

D.16 A full permissive extension would allow friendly societies to use IAS, where they are not required to do so, if they identify benefits for their business in doing so.

4. BENEFITS

Option 1: No extension

D.17 The benefit to business in not extending application of the IAS Regulation is that no cost burden will fall on friendly societies except those that will be required by the IAS Regulation to use adopted IAS in the preparation of their consolidated financial statements if they choose to issue traded securities.

Option 2: Full mandatory extension

D.18 There are no benefits to individual friendly societies in addition to those that outlined in paragraph D.19 below. There are wider benefits in terms to the financial services sector of convergence to a single accounting standard and an improvement in comparability and transparency.

Option 3: Full permissive extension

D.19 A benefit of extension generally is that for friendly societies that do business or seek capital across borders, compliance with adopted IAS would make their accounts more comparable with those of their competitors in IAS countries. This comparability would assist members, analysts and other user of accounts. There could also be cost savings as a result of not having to prepare different accounts according to different national standards. In addition, a failure to allow full extension would mean that any friendly societies required to use IAS as a result of issuing a traded security would not have to prepare their accounts using two different accounting methods. Both individual and consolidated accounts could be prepared in accordance with adopted IAS.

D.20 Extension on a permissive rather than mandatory basis has the benefit of minimising burdens on business. There will be costs for a friendly society in switching to IAS. A permissive approach would mean that friendly societies can switch to IAS when it best suits their own circumstances, and when they judge that the benefits outweigh the costs.

Business Sectors Affected

D.21 This proposal will potentially affect all friendly societies in the UK. In April 2004, there were 211 friendly societies in total on the register at the FSA. It is not possible to predict how many of these will choose to prepare their accounting in accordance with adopted IAS. Where respondents are replying on behalf a friendly society, we would be grateful for views on the likelihood of your friendly society using adopted IAS.

Issues of equality and fairness

D.22 We do not consider that the proposal will bring any disproportionate benefits or have disproportionate effects on particular groups.

5. COSTS

**Compliance
Costs****Option 1: No extension**

D.23 If the application of the IAS Regulation is not extended, there will be no cost to businesses other than that falling on those already covered by the IAS Regulation. Any cost on shareholders, analysts and other users of accounts (such as investors, creditors and enforcement bodies) of having to be familiar with two sets of accounting regimes for investment or compliance purposes arises from the IAS Regulation itself rather than any extension to it.

Option 2: Full mandatory extension

D.24 There will be a one-off cost for friendly societies for compliance with the IAS Regulation. They will have to change the basis on which they prepare their accounts, entailing changes to accounting systems. Changes to IT systems would be required, but we do not currently have estimates for these.

D.25 There will be one-off training costs for staff in being instructed in the standards and in interrogating the data in order to compile accounts to a different accounting regime. Elsewhere¹, the DTI provided anecdotal evidence that suggested small businesses may require 1 person to be trained for 2 days. Medium to large businesses may require 2 staff to be trained for between 3 and 5 days. This gives the following estimates:

- Cost of training course: £750 per day (cost of a one day training package on IAS)
- Cost of staff time per day: £100 per day (assuming staff pay of £25,000 per annum approximately)

D.26 The training costs for small businesses may be approximately £1,700 per business. It is possible that as many small businesses may not have in-house accountancy staff and therefore would not incur a training cost. However, in these cases there may be a need for additional external advice and support. We do not have estimates for their potential cost. It is estimated that the cost for medium to large businesses may be between £5,100 and £8,500 per business.

D.27 There may be additional ongoing costs for small businesses in having to comply with adopted IAS. IASB standards are primarily focused on the reporting requirements of large publicly traded companies, which are involved in complex transactions. Some standards are arguably less relevant to small businesses or require them to account for certain transactions in overly complex ways. As yet, there is no international equivalent to the ASB's FRSSSE, which brings together in one place, with some simplifications, the accounting requirements from each of the full domestic standards as they apply to small businesses.

D.28 There will also be costs for accountancy firms in a mandatory change to IAS. There are some 64,000 accountancy businesses or firms in the UK. It will be difficult to divorce the impact of these changes from the similar changes in accounting legislation for companies and building societies as a result of the IAS Regulation. The DTI estimate there will be one-off training costs for two days training for a partner and 2 others in the region of £5,700, broken down as follows:

¹ p126 of "Modernisation of Accounting Directives/IAS infrastructure", 25 March 2004, URN 04/733. Available at www.dti.gov.uk/consultations or www.hm-treasury.x.gsi.gov.uk/consultations

- Cost of training course: £750 per day (cost of a one day training package on IAS)
- Cost of staff time per day: £100 per day (assuming staff pay of £25,000 per annum approximately)
- Cost of partner time: £400 (assuming partner pay of £100,000 per annum approximately)

Option 3: Full permissive extension

D.29 If friendly societies are required to adopt IAS in the preparation of their financial statements, compliance costs will be incurred. Permitting friendly societies to use adopted IAS will impose no compliance costs. Giving friendly societies the ability to choose to use adopted IAS in the preparation of their accounts will allow them the flexibility to prepare accounts in accordance with the accounting framework that is best suited to their needs. They can choose to switch to adopted IAS when they judge that the benefits outweigh the costs. There will be a cost to those accountancy firms dealing with businesses that issue (or later choose to issue) traded securities, arising directly from the IAS Regulation. There will be a cost on other accountancy firms in permitting non-publicly traded businesses to use adopted IAS. Those firms will need to become familiar with IAS in order to advise their clients on whether to switch. However, the ASB's convergence programme will mean that IAS and UK GAAP are similar, thereby reducing the cost of becoming familiar with IAS.

Other costs D.30 We do not consider that there are any costs imposed on sectors other than business.

6. CONSULTATION WITH SMALL BUSINESS: THE SMALL FIRM'S IMPACT TEST

D.31 The DTI have already conducted a Small Firm Impact Test, shown in the following paragraphs. We believe that many of the general principles discussed there also apply to friendly societies.

Stage 1 D.32 The DTI estimated (see D.26 above) that there may be a one-off training cost of £1,700 for a small business should it choose to use adopted IAS in the preparation of its financial statements. It is possible that as many as 60% of small business may not have in-house accountancy staff and therefore would not incur a training cost. There will be no cost to small business if they choose not to use adopted IAS.

Stage 2 D.33 The DTI 2002 consultation document on IAS and its small firms summary was made widely available. The Small Practitioners Association (SPA), who represent an independent group of small professional practices serving a total of some 90,000 incorporated businesses (the vast majority of which are small) were not in favour of compulsory extension to small companies. The SPA felt there would be little impact on small businesses, as few would choose to move to adopt IAS.

D.34 The London Society of Chartered Accountants (with a membership of 30,000) commented that the application of adopted IAS should be extended to all companies on either a voluntary or compulsory basis, dependent on the options. However, the IAS regulation should not be applied to the accounts of small companies (as defined) in the short term until a FRSSE has been developed that is consistent with IAS.

7. COMPETITION ASSESSMENT

D.35 The proposal has the potential to affect all friendly societies that choose to prepare their financial statements in accordance with adopted IAS. It is not anticipated that the proposal will: affect some of those businesses more than others; affect market structure; change the number or size of those businesses; lead to higher set-up costs for those businesses; or lead to higher on-going costs, than at present.

8. ENFORCEMENT AND SANCTIONS

D.36 The Friendly Societies Act 1992 and subsequent Regulations made under this Act contain a number of requirements on accounting and auditing. Breaches of the most important of these requirements are criminal offences for which both the friendly society and any of its officers in default can be prosecuted and fined. Friendly societies are also subject to supervision and regulation by the Financial Services Authority. The FSA receives a copy of each society's annual accounts and has a flexible range of sanctions at its disposal to ensure compliance with the statutory requirements.

9. MONITORING AND REVIEW

D.37 The Government proposes to review the adoption of the IAS Regulation for companies around 2008 and re-evaluate the extension options, having regard to developments in the ASB's convergence programme and the IASB's development of an International FRSSSE. Any decisions on the extension options for friendly societies will be made in light of this review.

10. CONSULTATION

Within Government

D.38 HM Treasury have consulted with the DTI, the Financial Services Authority and the Department for Enterprise, Trade and Industry in Northern Ireland. As part of the consultation published in March 2004 on the same accounting changes for companies and building societies, the DTI and HM Treasury consulted the Inland Revenue, the Financial Services Authority, the Small Business Service, Companies House and the Department for Enterprise, Trade and Industry in Northern Ireland.

Public consultation

D.39 On 2 September 2002, the DTI published a consultation document on the possible extension of the IAS Regulation to companies. The consultation was sent to approximately 1,000 businesses, professional bodies, and representative organisations and individuals, and was also made available on the internet. The consultation closed on 26 November 2002. 69 responses were received.

D.40 In July 2004, HM Treasury published a consultation document on the Modernisation Directive and IAS Infrastructure for friendly societies. The consultation document is available on HM Treasury's website, and printed copies are available on request. The deadline for comments is 15 September 2004.

11. SUMMARY AND RECOMMENDATIONS

D.41 HM Treasury recommend option 3: full permissive extension. The benefits of this option are:

- Parent friendly societies and subsidiaries in groups will be able to prepare their accounts to one framework of accounting standards.

- Friendly societies that do business or seek capital across borders would be able to prepare their accounts to adopted IAS for ease of comparison.
- Comparability of accounts will assist shareholders, analysts and other users of accounts.
- Comparability of accounts will help maintain the attractiveness of British businesses to international investors.
- Costs savings in not having to prepare accounts to different national standards.
- Friendly societies of different sizes will be able to choose which standard is best suited for their needs.

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PARTIAL REGULATORY IMPACT ASSESSMENT: MODERNISATION DIRECTIVE

I. PROPOSAL

E.1 The Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Regulations 2004, insofar as it implements Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 (“the Modernisation Directive”).

2. PURPOSE AND INTENDED EFFECT

Objective E.2 The Modernisation Directive is designed to bring European accounting requirements into line with modern accounting practices. It requires Member States to make certain changes to national law concerning the form and content of friendly society accounts. It also gives Member States options on whether and how they implement certain aspects of it. This will enable friendly societies to follow modern, more transparent accounting practices that are consistent with International Accounting Standards (IAS).

Devolution E.3 Responsibility for friendly society law matters lies with the Chancellor of the Exchequer. Friendly society law is an area which is reserved to Westminster under the Scottish, Welsh and Northern Irish devolution legislation and therefore any resulting changes to legislation will also apply in Scotland, Wales and Northern Ireland.

Background E.4 EU accounting requirements are based primarily on the four Accounting Directives:

- 1978 Fourth Directive on Company Accounts¹
- 1983 Seventh Directive on Consolidated Accounts²
- 1986 Directive on Accounts for Banks and other Financial Institutions³
- 1991 Insurance Accounts Directive⁴

E.5 The Modernisation Directive is designed to:

- remove conflicts between the Accounting Directives and International Accounting Standard Board (IASB) standards in existence at the time it was drawn up; and
- ensure that optional accounting treatments currently available under IASB standards in existence at 1 May 2002 are available to EU undertakings which continue to have the Accounting Directives as the basis of their accounts.

E.6 The Modernisation Directive is required to be implemented only insofar as the existing Accounting Directives it is amending already apply to friendly societies. The

¹ Fourth Council Directive of 25 July 1978 (78/660/EEC) based on Article 54(3)g of the Treaty on the annual accounts of certain types of companies. OJ L222/11 of 14 August 1978.

² Seventh Council Directive of 13 June 1983 (83/349/EEC) based on Article 54(3)(g) of the Treaty on consolidated accounts. OJ L193/1 of 18 July 1983.

³ Council Directive of 8 December 1986 (86/635/EEC) on the annual and consolidated accounts of banks and other financial institutions. OJ L372/1 of 31 December 1986.

⁴ Council Directive of 19 December 1991 (91/674/EEC) on the annual and consolidated accounts of insurance undertakings. OJ L374/7 of 31 December 1991

1991 Insurance Accounts Directive applies to directive friendly societies (that are insurance undertakings and that are authorised to carry on insurance business). The 1991 Insurance Accounts Directive also applies certain provisions of the 1978 Fourth Directive on Company Accounts to insurance undertakings (including directive friendly societies). The 1978 Fourth Directive on Company Accounts therefore indirectly impacts on directive friendly societies. Friendly societies fall outside of the scope of the other two existing Accounting Directives amended by the Modernisation Directive and so we do not propose to make any changes to friendly society legislation as a result of amendments to these accounting directives.

E.7 Although only directive friendly societies fall within the scope of the Modernisation Directive, we propose to extend two of the mandatory requirements of the Directive to non-directive friendly societies. These requirements relate to the audit reports and the directors' reports. Restricting these requirements to directive friendly societies would result in greater complexity in the 1992 Act. We have therefore proposed a limited extension to ensure legislative simplicity.

E.8 The Directive must be implemented by 1 January 2005. It is not directly applicable and must be implemented through amendments to the Friendly Societies Act 1992 ("the 1992 Act") and regulations made under this Act.

E.9 In a number of places, the Modernisation Directive gives Member States options on how to implement it. The Government's general approach to implementing the Directive is to facilitate greater convergence between UK accounting standards and IAS, without imposing unnecessary burdens. In addition, level playing field issues arise unless there is consistency between companies and friendly societies.

Risk Assessment E.10 The Government is required to implement the Modernisation Directive. Failure to implement the changes required by the Directive would result in infraction proceedings being brought against the UK and would prevent friendly societies from following up-to-date accounting requirements. Failure to implement those proposals not required by the Modernisation Directive but presented as options or as possible extensions would prevent friendly societies from following up-to-date accounting practices.

3. OPTIONS

E.11 There are numerous permutations for implementing the provisions of the Modernisation Directive for directive friendly societies. For simplicity, only three main overarching options of "do nothing", "full implementation" and "full implementation plus two extensions" are discussed.

Option 1: Do nothing

E.12 It is not feasible to "do nothing" for many of the accounting amendments, as that option would lead to infraction proceedings being brought against the UK for failure to implement the Modernisation Directive. Doing nothing on the options presented by the Modernisation Directive risks preventing directive friendly societies from being able to follow up-to-date accounting practices.

Option 2: Implementation of the accounting amendments

E.13 The Modernisation Directive is only required to be implemented for directive friendly societies. This option would result in compliance with the requirements to

implement the Modernisation Directive, reflection of best practice in audit reporting and allowing directive friendly societies to follow up-to-date accounting practices. This option is broken into 5 subsections a – e which are discussed in detail below.

a) Audit Reports **E.14** Audit reports currently differ across Member States. Articles 1.15 and 1.18 of the Modernisation Directive seek to achieve greater harmonisation and reflect best practice in the format and content of audit reports. Audit reports prepared in accordance with UK Statement of Auditing Standards 600 already conform very closely to the requirements of the Modernisation Directive.

E.15 One of the changes is that, in future, the auditors will need to identify the financial reporting framework applied in the preparation of accounts (i.e. whether by IAS or UK GAAP).

E.16 Article 1.16 of the Modernisation Directive requires disclosure, whenever non-statutory accounts (e.g. interim accounts) are published, of whether the auditors have drawn attention in their report to any matter by way of emphasis, without qualifying the audit report, as well as of whether the audit report was qualified or unqualified.

b) Presentation of items **E.17** Article 1.2 of the Modernisation Directive gives Member States the option to permit or require the presentation of amounts within items in the profit and loss account and balance sheet to have regard to the substance of the reported transaction. The Government proposes to adopt this option as a requirement, as has already been done for companies and building societies.

c) Fair Value of financial instruments **E.18** Article 4.5 of the Modernisation Directive applies Articles 42a to 42d of the Fourth Accounts Directive to insurance undertakings. This requires Member States to permit or require insurance undertakings to account for their financial instruments at fair value. The Government intends to adopt a permissive approach, as has already been done for companies and building societies.

d) Fair Value of investment property and biological assets **E.19** Article 1.12 of the Modernisation Directive gives Member States the option to extend the use of fair value accounting to asset categories other than financial instruments. Following adoption of IAS 40 Investment Property and IAS 41 Agriculture, the Government has decided to permit the relevant categories of assets (investment property and biological assets) to be fair valued in both individual and consolidated accounts of directive friendly societies.

e) Directors' Report **E.20** Articles 1.14, 1.17 and 2.10(a) of the Modernisation Directive require directors' reports to contain a fair review of the friendly society's position, including an analysis of the risks and uncertainties faced, in order to give greater transparency and precision of reporting on performance on financial and non-financial matters.

E.21 We consider there are no risks to options 2a to e and seek the views of consultees on the risks of these options.

Option 3: Implementation of the accounting amendments plus extension of two requirements to all friendly societies

E.22 Although the Modernisation Directive is only required to be implemented for directive societies, we have proposed to extend two of the mandatory aspects of the Directive to non-directive friendly societies. We believe that this extension would ensure the benefits associated with legislative simplicity are realised for friendly societies. The two extensions relate to the audit report and the directors' report as outlined in the previous section (2a and 2e respectively).

E.23 In terms of the audit reports, there would be no increase in the accounts which the auditor is required to report on nor on the true and fair opinions which they are required to give. The increased requirements are for the auditors to identify the accounting framework used and describe the scope of the audit. The extension also provides for increased flexibility in the opinions that the auditor can give. As well as being qualified or unqualified, the auditor may also draw special attention to a matter by way of emphasis.

E.24 In terms of the directors' report, all societies are already required to produce a directors' report containing a fair review of the development and performance of the business of the society. The increased requirement is for that review to analyse the development and performance of the business comprehensively and to include a description of the principal risks facing the society.

E.25 We consider there is no risk to this option but seek the views of consultees on this point.

4. BENEFITS

Option 1: Do nothing

E.26 There are no benefits in choosing Option 1. To do nothing would prevent friendly societies from following the most up-to-date accounting practices.

Option 2: Implementation of accounting amendments

E.27 Option 2a makes amendments to the audit report of individual friendly societies and groups. This will more closely align the requirements of the 1992 Act with current practice in audit reporting.

E.28 Option 2b makes amendments to the presentation of items within the format of accounts. These amendments facilitate the convergence of UK accounting standards with IAS bringing the benefits of alignment with IAS previously described. It is also important that formats do not create excessive rigidity and become an obstacle to presenting items in the most meaningful way.

E.29 Option 2c and d will facilitate use of up-to-date accounting practices by allowing directive friendly societies to use fair value accounting for their financial instruments, investment property and biological assets, facilitating convergence with IAS.

E.30 Option 2e will facilitate greater transparency and reporting on performance on financial and non-financial matters. The directors' report will provide additional information encouraging members to exercise effective and responsible control.

E.31 The overall benefits of Options 2a to e are that they will allow directive friendly society law to reflect the requirements of the Modernisation Directive, reflect current best practice in audit reporting, and allow friendly societies to follow up-to-date accounting practices. The changes will also ensure that there is consistency between companies and friendly societies for the purpose of these accounting changes.

Option 3: Implementation of the accounting amendments plus extension of two requirements to all friendly societies

E.32 Extension of option 2a (audit report) to all friendly societies will have the benefit of aligning the requirements of the 1992 Act more closely with current accounting practice in audit reporting.

E.33 Extension of option 2e (directors' report) to all friendly societies will ensure that members of all friendly societies will benefit from greater transparency and reporting on performance on financial and non-financial matters. The directors' report will provide additional information encouraging members to exercise effective and responsible control.

E.34 In general terms, these two extensions will reflect current best practice in audit reporting, and allow friendly societies to follow up-to-date accounting practices. As not extending these requirements would result in greater legislative complexity, friendly societies will also benefit from the resulting legislative simplicity that these extensions introduce.

Business sectors affected **E.35** As of April 2004, there were 211 friendly societies in total on the register at the Financial Services Authority, of which 25 were directive friendly societies. In other words, 25 societies are subject to the 1991 Life Insurance Directive and hence, the changes made to it by the Modernisation Directive. Option 2a will affect all directive and non-directive friendly societies that require an auditors' report. However, in practice, auditors already carry this out although not required under the 1992 Act. These changes simply reflect best practice. Option 2b will affect all directive friendly societies by changing the presentation of items in the format of accounts. Option 2c and d are optional; a directive friendly society may choose to use fair value accounting for financial instruments, investment property and biological assets, but none will be required to do so. Option 2e will affect all directive and non-directive friendly societies by introducing new requirements for the directors' report.

Issues of equality and fairness **E.36** We do not consider that the proposal will bring any disproportionate benefits or have disproportionate effects on particular groups.

5. COSTS

Compliance costs **Option 1: Do nothing**

E.37 There would be no compliance costs on friendly societies in the "do nothing" option.

Option 2: Implementation of accounting amendments

E.38 Option 2a has minimal cost, as those requirements are a reflection of best practice already in use.

E.39 There will be a small training and IT cost to Option 2b. The amendments are not intended to make any generic changes in the presentation of specific items in the accounts. The changes will clarify the balance sheet and profit and loss formats specified by the 1992 Act by requiring that the presentation of items within the accounting formats have regard to their economic substance.

E.40 Option 2c and d will have a cost in the training of staff and updating of IT systems for those companies that decide to take up the fair value option. The DTI estimated the cost for companies to be in the region of £600 per company. (1 day's training at £500 plus cost of staff time at £100).

E.41 Friendly societies are already required to prepare a directors' report. Option 2e will increase the costs associated with this. Costs relating to business risk assessments and identifying key performance indicators will be greater for those friendly societies that need to introduce systems in order to meet the new requirements. It is difficult to get a hard idea of what impact the revised audit requirement would have and what additional work auditors would carry out in order to arrive at an opinion on the consistency of the directors' report with the annual accounts. We estimate the cost of preparing a directors' report to increase by an average of £1,000, although this would vary according to the size of the friendly society.

Option 3: Implementation of accounting amendments plus extension of two requirements to all friendly societies

E.42 In addition to the costs of implementation for directive friendly societies at detailed in paragraphs E.38 to E.41, take up of this option and the extension of these two requirements would result in greater costs for non-directive friendly societies. Extension of option 2a (audit reports) would have minimal cost as those requirements are a reflection of best practice already in use but we estimate that extension of option 2e (directors' report) could result in greater costs of up to £1,000 (as outlined in paragraph E.41) for non-directive friendly societies.

E.43 The Government welcomes comments from respondents on the costs of these options.

Other costs E.44 The Government considers that there are no costs imposed on sectors other than business.

6. CONSULTATION WITH SMALL BUSINESS: THE SMALL FIRM'S IMPACT TEST

E.45 The Modernisation Directive impacts mainly on directive friendly societies of which none appear to be small businesses. Although, for purpose of legislative simplicity, we have extended two aspects of the Modernisation Directive to non-directive friendly societies, it appears that many friendly societies already largely comply with these requirements. We therefore do not consider that the proposals to implement the Modernisation Directive will have large cost implications for small businesses. We welcome comments from friendly societies on this point.

7. COMPETITION ASSESSMENT

E.46 The proposal has the potential to affect all friendly societies. It is not anticipated that the proposal will: affect some of those businesses more than others; affect market structure; change the number or size of those businesses; lead to higher set-up costs for those businesses; or lead to higher on-going costs, than at present.

8. ENFORCEMENT AND SANCTIONS

E.47 The Friendly Societies Act 1992 and subsequent Regulations made under this Act contain a number of requirements on accounting and auditing. Breaches of the most important of these requirements are criminal offences for which both the friendly society and any of its officers in default can be prosecuted and fined. Friendly societies are also subject to supervision and regulation by the Financial Services Authority. The

FSA receives a copy of each society's annual accounts and has a flexible range of sanctions at its disposal to ensure compliance with the statutory requirements.

9. MONITORING AND REVIEW

E.48 The EU Contact Committee on the Accounting Directives will keep the Accounting Directives under review and consider the need for further changes.

10. CONSULTATION

Within Government **E.49** HM Treasury have consulted with the DTI, the Financial Services Authority and the Department for Enterprise, Trade and Industry in Northern Ireland. As part of the consultation published in March 2004 on the same accounting changes for companies and building societies, the DTI and HM Treasury consulted the Inland Revenue, the Financial Services Authority, the Small Business Service, Companies House and the Department for Enterprise, Trade and Industry in Northern Ireland.

Public consultation **E.50** In July 2004, HM Treasury published a consultation document on the Modernisation Directive and IAS Infrastructure for friendly societies. The consultation document is available on HM Treasury's website, and printed copies are available on request. The deadline for comments is 15 September 2004.

11. SUMMARY AND RECOMMENDATIONS

E.51 The Government recommends Option 3. This option will allow friendly society law to reflect the requirements of the Modernisation Directive, reflect current best practice in audit reporting, and enable friendly societies to follow up-to-date accounting practices.

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