

**IMPLEMENTING THE MODERNISATION OF ACCOUNTS DIRECTIVE
2003/51/EC¹ IN RELATION TO FRIENDLY SOCIETIES – A
TRANSPOSITION NOTE**

**THE FRIENDLY SOCIETIES (ACCOUNTS AND RELATED PROVISIONS)
(AMENDMENT) REGULATIONS 2005; and**

**THE FRIENDLY SOCIETIES ACT 1992 (INTERNATIONAL ACCOUNTING
STANDARDS AND OTHER ACCOUNTING AMENDMENTS) ORDER 2005**

Introduction

1. These statutory instruments implement the Modernisation of Accounts Directive in relation to friendly societies. The Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2005 implement the parts of the Directive that require amendments to be made to the existing accounting regulations. The rest of the Modernisation of Accounts Directive is being implemented by an Order amending the Friendly Societies Act 1992, the Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Order 2005. This is a full transposition note for the Directive, providing cross-references both to the implementing provisions in these regulations and in that order
2. European Union (EU) accounting requirements are based primarily on four Accounting Directives; the Fourth² and Seventh³ Directives on the annual and consolidated accounts of companies; the Directive on the annual and consolidated accounts of banks and other financial institutions⁴ (“the Bank Accounts Directive”); and the Directive on the annual and consolidated accounts of insurance undertakings⁵ (“the Insurance Accounts Directive”).
3. The Modernisation of Accounts Directive amends the Accounting Directives in order to remove conflicts between the Accounting Directives and international accounting standards (“IAS”) in existence at the time it was drawn up. It also ensures that optional accounting treatments available under IAS in existence at 1 May 2002 are available to EU undertakings which continue to have the Accounting Directives as the basis of their accounts (i.e. those undertakings which will not prepare their accounts in accordance with the IAS Regulation⁶).

¹ Directive 2003/51/EC of the European Parliament and Council 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 (OJ L178 of 17.7.2003).

² Fourth Council Directive of 25 July 1978 (78/660/EEC) on the annual accounts of certain types of companies (OJ L222/11 of 14.8.1978).

³ Seventh Council Directive of 13 June 1983 (83/349/EEC) on consolidated accounts (OJ L193/1 of 18.7.1983).

⁴ Council Directive of 8 December 1986 (86/635/EEC) on the annual accounts and consolidated accounts of banks and other financial institutions. OJ L372/1 of 31 December 1986.

⁵ Council Directive of 19 December 1991 (91/674/EEC) on the annual accounts and consolidated accounts of insurance undertakings. OJ L374/7 of 31 December 1991.

⁶ 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).

5. Not all of the provisions in the Modernisation of Accounts Directive apply to friendly societies. The following articles do not apply: 1.3, 1.4, 1.5, 1.6, 1.8, 1.22, all of article 3, article 4.2 and 4.6. Where any other provisions of the directive are omitted from the table below, this is because the changes they make are either minor or consequential in nature. In the table below references to “the Regulations” are to the Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2005 and references to “the Order” are to the Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Order 2005.

Article	Objectives	Implementation	Responsibility
1.1	Allows Member States to permit or require the inclusion of other statements in annual accounts.	UK not taking up this option for friendly societies.	HM Treasury
1.2	Allows Member States to permit or require the presentation of amounts in the accounts to have regard to the substance of the transaction.	UK are taking up this option for friendly societies and imposing a requirement to have regard to the substance of the transaction. Implemented by regulation 2 of the Regulations.	HM Treasury
1.7, 1.9 and 1.11	These articles make changes in terminology relating to provisions and change the definition of provisions.	Are implemented by regulations 2 and 6 of the Regulations.	HM Treasury
1.10	Expands the scope of the fixed assets that can be revalued.	No implementation necessary as paragraph 11(1) of Schedule 6 to the Friendly Societies (Accounts and Related Provisions) Regulations 1994 already permits intangible fixed assets, other than goodwill, to be included at their current cost.	HM Treasury
1.12	Allows Member States to permit valuation of specific categories of assets by fair value principles.	UK are taking up this option for friendly societies. It is implemented by regulations 3 and 4 of the Regulations.	HM Treasury
1.14	Amends the requirements in relation to the contents of the	Articles 3 and 4 of the Friendly Societies Act	HM Treasury

	annual report so that more detail is required and more analysis of the business risks are included.	1992 (International Accounting Standards and Other Accounting Amendments) Order 2005, amend section 71 and insert a new section 71A into the Friendly Societies Act 1992.	
1.15 and 1.16	There is no longer a requirement for a statement in the published auditors' report of whether the accounts have been qualified or not reported on. There is an expanded requirement regarding the disclosure of audit information when accounts are not published in full. It must be disclosed whether the audit report was qualified, unqualified or whether no opinion was given. It must also be disclosed if auditors have drawn attention to any matter in their report without qualifying the report.	Article 5 of the Friendly Societies Act 1992 (International Accounting Standards and Other Accounting Amendments) Order 2005, implements these provisions.	HM Treasury
1.17	Requires auditors of accounts to be approved by Member States to carry out statutory audits on the basis of Directive 84/253/EEC. Further requires the statutory auditors to express an opinion on the consistency or otherwise of the annual report with the annual accounts for the same financial year.	The first obligation is already implemented by Schedule 14 of the Friendly Societies Act 1992. The second obligation is implemented by article 5 of the Order.	HM Treasury
1.18	Revises requirements regarding the contents of the auditors' report. The auditor must now state which financial reporting framework has been used and say whether the accounts give a true and fair view in accordance with that framework.	Article 5 of the Order implements this provision.	HM Treasury
1.20	Prevents Member States from allowing entities whose securities are admitted to trading on a regulated market,	No implementation required as these exemptions were never granted to friendly	HM Treasury

	from benefiting from certain exemptions re disclosure.	societies.	
2.1	Amends the definition of when a parent has a subsidiary undertaking.	This is implemented by paragraph 3 of the Schedule to the Order.	HM Treasury
2.3	Prevents Member States from allowing entities whose securities are admitted to trading on a regulated market, from benefiting from certain exemptions regarding the obligation to prepare consolidated accounts.	No implementation required as these exemptions were never granted to friendly societies.	HM Treasury
2.6	Removes an exemption which allowed a subsidiary undertaking to be excluded from its parents consolidated accounts if its activities were so incompatible with those of the parent that inclusion would fail to meet the requirement to give a true and fair view in the consolidated accounts.	No implementation required as this exemption was never granted to friendly societies.	HM Treasury
2.7	Allows Member States to permit or require the inclusion of other statements in consolidated accounts.	UK are not taking up this option for friendly societies.	HM Treasury
2.10	Amends the requirements in relation to the contents of the consolidated annual report so that more detail is required and more analysis of the business risks are included.	Articles 3 and 4 of the Order 2004 amend section 71 of and insert a new section 71A into the Friendly Societies Act 1992.	HM Treasury
2.11	This Article amends the requirements in respect of auditing of consolidated accounts in the same way that articles 1.15 to 1.18 amend the requirements on individual accounts.	The first obligation is already implemented by Schedule 14 of the Friendly Societies Act 1992. The second obligation is implemented by article 5 of the Order.	HM Treasury
2.12	Prevents certain exemptions regarding publication of accounts from applying to entities which have their securities traded on a regulated market.	No implementation necessary as the exemptions were never applied to friendly societies.	HM Treasury
4.3	Changes a title under "Liabilities" in the balance sheet format.	This is implemented by regulation 2 of the Regulations.	HM Treasury

4.4	Permits member states to let insurance undertakings accounts use different valuation methods within one item.	UK are not taking up this option for friendly societies.	HM Treasury
4.5	Requires certain disclosures in the notes to the accounts where the fair value method of valuation is used in relation to certain investments	Implemented by regulation 5 of the Regulations	HM Treasury