

**INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES
(AMENDMENT) INSTRUMENT 2001**

- A. The Financial Services Authority amends the Interim Prudential Sourcebook for Friendly Societies in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the "Act"):
- (a) section 138 (general rule making power);
 - (b) section 141 (insurance business rules);
 - (c) section 150(2) (actions for damages);
 - (d) section 156 (general supplementary powers);
 - (e) section 157 (guidance); and
 - (f) section 340 (appointment of auditors and actuaries).
- B. The provisions of the Act relevant to making rules and listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).
- C. This instrument comes into force immediately.
- D. IPRU(FSOC) is amended in accordance with the Annex to this instrument.
- E. This instrument may be cited as the Interim Prudential Sourcebook for Friendly Societies (Amendment) Instrument 2001.

By order of the Board
20 September 2001

ANNEX

1. Delete rule 3.2 (Audit of systems and records).
2. For paragraph C6(a) of Attachment C to Annex 3 substitute:

“adequacy of resources, including number, experience and skills of those providing inspection services. There may be areas (eg computer audit) for which specific skills may need to be obtained from an external source. A *friendly society*’s auditors would not normally be expected to provide such inspection services, as there is potential for a conflict of interest to arise;”

3. For rule 4.11 substitute:

“Except for rule 4.24, which applies to all *friendly societies*, the remaining rules in this chapter do not apply to *non-directive friendly societies*.”

4. For the rider to paragraph 4 of Annex 3, Part I substitute:

“These requirements are intended to form a sound basis for the control of *friendly societies*’ businesses and the protection of *policyholders*’ funds. The requirements of rule 3.1 apply to *friendly societies* and *registered branches*.”

5. For paragraph 30 of Annex 3, Part I substitute:

“As explained in 2 the *committee* of a *friendly society* is required to send a statement of opinion to the *FSA* every year stating whether the *friendly society* has complied with the requirements of rule 3.1 and in the case of a *friendly society* with *registered branches*, stating whether its branches have complied with the requirements.”

6. For paragraph 31 of Annex 3, Part II substitute:

“13 to 15 of, and Annex B to, Appendix 4 includes specific provisions with respect to *derivative contracts* and contracts or assets having the effect of *derivative contracts*. This includes provisions restricting those contracts which may be counted as assets for the

purposes of determining a *directive friendly society's required margin of solvency*. Annex 7 refers to Guidance Note 4.2 in *IPRU(INS)* which discusses valuation issues surrounding the use of *derivative contracts*. That Annex also draws attention to the need for the *committee* and management of a society which uses *derivative contracts* to have sufficient understanding of the nature and risks of the contracts it uses to ensure there are effective systems in place to monitor the use of derivatives.”