

**Special Guide for Small Friendly Societies
Instrument 2001**

Powers exercised

- A. The Financial Services Authority gives the guidance in the Annex to this instrument in the exercise of the power in section 157(1) of the Financial Services and Markets Act 2000.

Commencement

- B. This instrument comes into force immediately.

Citation

- C. This instrument may be cited as the Special Guide for Small Friendly Societies Instrument 2001.
- D. The annex to this instrument may be cited as the Special Guide for Small Friendly societies, or FREN.

By order of the Board
15 November 2001

ANNEX



Small Friendly Societies

- FREN 1** **FREN: Special guide for small Friendly societies**
 - 1.1 Application and purpose
 - 1.2 Parts of the Handbook applicable to small friendly societies

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The Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS





Telephone 020 7676 1000
Fax 020 7676 1099

Website www.fsa.gov.uk

Chapter 1

FREN: Special guide for small Friendly societies

1.1 Application and purpose

- 1.1.1**  This special guide is for small friendly societies.
- 01.12.01/001
1.1.2  Its purpose is to guide small friendly societies to the particular parts of the *Handbook* which apply to them.
- 01.12.01/001
1.1.3  A *friendly society* that is not subject to the *Insurance Directives* is often referred to as a *non-directive friendly society*. For the purposes of this guide it is referred to as a small friendly society.
- 01.12.01/001
1.1.4  A Reader's Guide is also available that gives an introduction to the *Handbook* and is a key navigational aid for *Handbook* users. The Reader's Guide explains the format, layout and workings of the *Handbook*, including the status and definitions of its components such as directions, *rules* and *guidance*. A Reader's Short Guide is also available.



1.2 Parts of the Handbook applicable to small friendly societies

1.2.1 **G**
01.12.01/001

Small friendly societies should read applicable parts of the *Handbook* to find out what the detailed regulatory requirements for small friendly societies are. These parts are listed in the table below.

1.2.2 **G**
01.12.01/001

Table Table: Parts of the Handbook applicable to small friendly societies.

	Part of Handbook	Applicability to small friendly societies
High Level Standards	Principles for Businesses (<i>PRIN</i>)	This applies.
	Senior management arrangements, Systems and Controls (<i>SYSC</i>)	This applies.
	Threshold Conditions (<i>COND</i>)	This applies – except for <i>COND</i> 2.6.
	Statements of Principle and Code of Practice for Approved Persons (<i>APER</i>)	This applies to an <i>approved person</i> who performs a <i>controlled function</i> for a small friendly society.
	The Fit and Proper test for Approved persons (<i>FIT</i>)	This applies to an <i>approved person</i> who performs a <i>controlled function</i> for a small friendly society.
Business Standards	General provisions (<i>GEN</i>)	This applies.
	Interim Prudential sourcebooks (<i>IPRU</i>)	The following parts of the Interim Prudential sourcebook (Friendly societies) (<i>IPRU(FSOC)</i>) apply to small friendly societies: (a) <i>IPRU(FSOC)</i> 1 (Application) (b) <i>IPRU(FSOC)</i> 2 (Integrity, skill, care and diligence) (c) <i>IPRU(FSOC)</i> 3 (Management and control) (d) <i>IPRU(FSOC)</i> 4 (Financial prudence) – in this part sections 4.1 to 4.7 and 4.24 apply

	Part of Handbook	Applicability to small friendly societies
		<p>(e) <i>IPRU(FSOC) 5</i> (Prudential reporting) – the application depends upon the type of business (<i>long-term insurance business</i> or <i>general insurance business</i>) and whether the small friendly society is a <i>registered friendly society</i> or an <i>incorporated friendly society</i>; it does not apply to <i>flat rate benefits business friendly societies</i></p> <p>(f) <i>IPRU(FSOC) 7</i> (Definitions)</p> <p>Appendices to <i>IPRU(FSOC)</i></p> <p>(a) Appendix 1 (Long-term insurance business margin of solvency)</p> <p>(b) Appendix 2 (General insurance business solvency margin)</p> <p>(c) Appendix 4 (Asset valuation rules)</p> <p>(d) Appendix 5 (Liability valuation rules)</p> <p>(e) Appendix 6 (Balance sheet)</p> <p>(f) Appendix 7 (General insurance business: revenue account, other revenue account and additional information)</p> <p>(g) Appendix 8 (Long-term insurance business: revenue account and additional information)</p> <p>(h) Appendix 9 (Abstract of actuarial valuation) – this applies to incorporated small friendly societies with <i>Part IV permission to effect</i> or <i>carry out long-term insurance business</i></p> <p>(i) Appendix 10 (Prudential reporting forms)</p> <p>Annexes to <i>IPRU(FSOC)</i></p> <p>(a) Annex 1 (Guidance on corporate governance of friendly societies)</p> <p>(b) Annex 2 (Guidance on officers’ liability insurance)</p> <p>(c) Annex 3 Part I (Guidance on systems of accounting, control of business and inspection and report)</p> <p>(d) Annex 3 Part II (Guidance on systems of control over investments) A – sections 9 to 13 do not apply. B – sections 19 to 23 do not apply</p> <p>(e) Annex 3 – Attachments A to D</p> <p>(f) Annex 4 (Guidance on margins of solvency and the guarantee fund) – provides <i>guidance</i> to different categories of <i>friendly societies</i> and does not apply to <i>flat rate benefits business friendly societies</i></p>

	Part of Handbook	Applicability to small friendly societies
	<p>Conduct of Business sourcebook (<i>COB</i>)</p>	<p>(g) Annex 5 (Guidance on exemption from triennial valuation)</p> <p>(h) Annex 5 – Attachment</p> <p><i>Friendly societies</i> and their advisers may also wish to refer to <i>IPRU(INS)</i> Volume 3 (Guidance) which contains additional Guidance Notes and other material, such as 'Guidance for insurers and auditors on the Valuation of Assets Rules' and 'Dear Appointed Actuary' letters, that may be of assistance to them.</p> <p>The other <i>IPRU</i> sourcebooks do not apply.</p> <p>The following parts of <i>COB</i> are relevant to small friendly societies:</p> <p>(a) <i>COB</i> 1 (Application and general provisions)</p> <p>(b) <i>COB</i> 2 (Rules which apply to firms conducting designated investment business)</p> <p>(c) <i>COB</i> 3 (Financial promotion)</p> <p>(d) <i>COB</i> 4 (Accepting customers)</p> <p>(e) <i>COB</i> 5 (Advising and selling)</p> <p>(f) <i>COB</i> 6 (Product disclosure and the customer's right to cancel or withdraw)</p> <p>(g) <i>COB</i> 7 (Dealing and managing) – but is likely to have limited relevance to small friendly societies.</p> <p>(h) <i>COB</i> 8 (Reporting to customers) – but is likely to have limited relevance to small friendly societies.</p> <p>(i) <i>COB</i> 9 (Client assets) – in this part sections 9.1, 9.2 and 9.4 are relevant</p> <p><i>COB</i> 10 to <i>COB</i> 12 do not apply.</p> <p>This sourcebook is principally relevant to small friendly societies with <i>Part IV permission to effect contracts of insurance</i>. However, for societies that only <i>carry out contracts of insurance</i>, <i>COB</i> 6.8 will apply. These societies should note that <i>COB</i> 8 and <i>COB</i> 9 may be of relevance to them.</p> <p>Only the following parts of <i>COB</i> apply in relation to <i>general insurance business</i> and <i>pure protection contracts</i>: <i>COB</i> 1.1 to 1.4, <i>COB</i> 1.8, <i>COB</i> 3.1 to 3.5, <i>COB</i> 3.8.4 to 3.8.6, <i>COB</i> 3.14, <i>COB</i> 4.1.12 to 4.1.14 and <i>COB</i> 6.8. <i>COB</i> 6.7 applies in relation to <i>pure protection contracts</i> only.</p>

	Part of Handbook	Applicability to small friendly societies
<p>Regulatory Processes</p>	<p>Market conduct sourcebook (MAR)</p>	<p>MAR 1 (Code of Market Conduct) – this gives <i>guidance</i> on what does and does not amount to <i>market abuse</i>; this Code is relevant to all <i>persons</i> seeking <i>guidance</i> as to whether or not <i>behaviour</i> amounts to <i>market abuse</i>.</p> <p>MAR 2 (Price stabilising rules) – applies to all <i>firms</i> but is likely to have limited relevance to small friendly societies.</p> <p>MAR 3 (Inter-professionals conduct) – does not apply.</p> <p>MAR 4 (Endorsement of the Takeover Code) – this applies to every <i>firm</i> whose <i>permission</i> includes, or ought to include, any <i>designated investment business</i>, but is likely to have limited relevance to small friendly societies.</p>
	<p>Training and Competence sourcebook (TC)</p>	<p>TC 1 (Commitments) applies.</p> <p>TC 2 (Rules and guidance) applies in respect of <i>employees</i> engaged in advising on certain long-term insurance products (see the table at TC 2.1.4R).</p>
	<p>Money Laundering sourcebook (ML)</p>	<p>This applies to small friendly societies but not in respect of their <i>pure protection contracts</i> or in relation to <i>general insurance business</i>.</p>
	<p>Authorisation manual (AUTH)</p>	<p>This applies.</p> <p><i>AUTH</i> contains <i>guidance</i> on the <i>Act and Regulated Activities Order</i>. It explains, among other matters, the <i>FSA's</i> procedures for applications for <i>Part IV permission</i> for an applicant that is not already an <i>authorised person</i>.</p>
	<p>Supervision manual (SUP)</p>	<p><i>SUP</i> contains, and explains, provisions that relate to how the <i>FSA</i> will monitor <i>firms</i> for compliance with requirements imposed by or under the <i>Act</i>.</p> <p>The following parts of <i>SUP</i> apply to small friendly societies:</p> <ul style="list-style-type: none"> (a) <i>SUP</i> 1 (The <i>FSA's</i> approach to supervision) (b) <i>SUP</i> 2 (Information gathering by the <i>FSA</i> on its own initiative) (c) <i>SUP</i> 3 (Auditors) – in this part sections 3.1 to 3.7 apply; societies should note that sections 3.1, 3.2 and 3.8 apply to a <i>society's</i> external auditors (d) <i>SUP</i> 4 (Actuaries)

	Part of Handbook	Applicability to small friendly societies
	Enforcement manual (ENF)	<p>(e) SUP 5 (Skilled persons)</p> <p>(f) SUP 6 (Applications to vary and cancel Part IV permission)</p> <p>(g) SUP 7 (Individual requirements)</p> <p>(h) SUP 8 (Waiver and modification of rules)</p> <p>(i) SUP 9 (Individual guidance)</p> <p>(j) SUP 10 (Approved persons) – SUP 10.6.26R to SUP 10.6.29G provide for a special <i>controlled function</i> for small friendly societies (the <i>small friendly society function</i>). SUP 10.10 (Customer functions) does not apply in relation to <i>general insurance business</i> or <i>pure protection contracts</i></p> <p>(k) SUP 11 (Controllers and close links) – in this part sections 11.1, 11.2 and 11.9 apply</p> <p>(l) SUP 12 (Appointed representatives) – this part applies to a <i>friendly society</i> with <i>permission</i> to carry on <i>designated investment business</i> and which is considering appointing, has decided to appoint or has appointed an <i>appointed representative</i></p> <p>(m) SUP 15 (Notifications to the FSA)</p> <p>(n) SUP 16 (Reporting requirements) – in this part sections 16.4 to 16.7 do not apply; section 16.8 applies to societies with <i>permission</i> to effect or carry out <i>life policies</i></p> <p>(o) SUP 18 (Transfers of business)</p> <p>(p) Appendix 1 (Prudential categories and sub-categories)</p> <p>(q) Appendix 2 (Scheme of operations)</p> <p>ENF describes the FSA’s policies and procedures for the exercise of its enforcement powers, and contains <i>guidance</i> on how those powers will be exercised. ENF applies to <i>firms</i>, <i>approved persons</i> and (in relation to some of the powers) other <i>persons</i>.</p> <p>ENF applies to small friendly societies, except for the following parts:</p> <p>(a) ENF 4 (Intervention against incoming firms)</p> <p>(b) ENF 16 (Collective investment schemes)</p> <p>(c) ENF 18 (Disapplication orders against members of the professions)</p>

	Part of Handbook	Applicability to small friendly societies
Redress	Decision making manual (<i>DEC</i>)	<p>Societies should be aware of the following parts of <i>ENF</i>, although they may be of limited relevance:</p> <p>(a) <i>ENF</i> 14 (Sanctions for market abuse) – applies to any <i>person</i>, whether regulated or not, who may be the subject of a financial penalty or public statement on the basis that the <i>FSA</i> suspects the <i>person</i> is or has engaged in <i>market abuse</i></p> <p>(b) <i>ENF</i> 17 (Disqualification of auditors and Actuaries) – applies to auditors and <i>actuaries</i> of small friendly societies</p> <p>This applies.</p> <p><i>DEC</i> contains <i>guidance</i> on the <i>FSA</i>'s decision making, and other procedures for giving <i>statutory notices</i>. It also gives <i>guidance</i> on the <i>FSA</i>'s procedures for using its powers under certain Parts of the <i>Act</i>.</p>
	Dispute resolution: the Complaints sourcebook (<i>DISP</i>)	<p>This applies. All <i>firms</i> are subject to the <i>Compulsory Jurisdiction of the Financial Ombudsman Service</i>.</p> <p><i>DISP</i> 4 (Standard terms) – only applies to a <i>firm</i> which has decided to be a <i>participant</i> in the <i>Voluntary Jurisdiction</i> of the <i>Financial Ombudsman Service</i>.</p>
	Compensation sourcebook (<i>COMP</i>)	<p>This sourcebook is principally relevant to the <i>Financial Services Compensation Scheme Limited</i> (<i>FSCS</i>). It sets out the circumstances in which compensation may be paid, to whom compensation may be paid and on whom the <i>FSCS</i> can impose levies to meet the costs of paying compensation.</p> <p><i>Firms</i> will be particularly interested in <i>COMP</i> 13 (Funding) which deals with levies.</p>
Specialist Sourcebooks	Complaints Against the <i>FSA</i> (<i>COAF</i>)	<p>This sourcebook sets out the details of the <i>complaints scheme</i>. The <i>complaints scheme</i> applies in relation to complaints made about the way the <i>FSA</i> has carried out its functions under the <i>Act</i>.</p>
	Collective Investment Schemes sourcebook (<i>CIS</i>)	<p>The specialist sourcebooks do not apply.</p>
	Professional firms sourcebook (<i>PROF</i>)	
Lloyd's sourcebook (<i>LLD</i>)		

	Part of Handbook	Applicability to small friendly societies
Special Guides	Recognised Investment Exchange and Recognised Clearing House sourcebook (<i>REC</i>)	This does not apply.
	Special guide for Energy Market Participants (<i>EMPS</i>)	
	Special guide for small Friendly societies (<i>FREN</i>)	
	Special guide for Oil Market Participants (<i>OMPS</i>)	
	Special guide for Service companies (<i>SERV</i>)	
Schedules	Summary schedules	These apply, but only to the extent that the sourcebook or manual to which they relate applies.
	1. Record keeping requirements	
	2. Notification requirements	
	3. Fees and other required payments	
	4. Powers exercised in making the Handbook	
	5. Rights of action for damages	
	6. Rules that can be waived	
	7. Releases	
Glossary of definitions	This applies	
Index	This applies	