FSA 2002/63

INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES (CHANGES TO VALUATION AND REPORTING) INSTRUMENT 2002

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the "Act"):

(1) section 138 (General rule-making power);

(2) section 150(2) (Actions for damages);

(3) section 156 (General supplementary powers); and

(4) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).

Commencement

C. This instrument comes into force as follows:

(1) the amendment to paragraph B31 of Annex B of Appendix 4 comes into force on 31 December 2002; and

(2) the remainder of this instrument comes into force on 1 November 2002.

Amendment of the Interim Prudential sourcebook for friendly societies

D. IPRU(FSOC) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Interim Prudential Sourcebook for Friendly Societies (Changes to Valuation and Reporting) Instrument 2002.

By order of the Board
17 October 2002

Annex

Amendments to IPRU(FSOC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

Permitted asset exposure limit

Paragraph 2(1) of Appendix 4 is amended as follows:

(1) Subject to rule 4.12(1), this ~~This~~ Appendix (the 'asset valuation rules') applies with respect to the determination of the value of assets of a *friendly society* for the purposes of chapters 4 and 5.

In Annex B of Appendix 4 (Assets to be taken into account only to a specified extent), paragraph B31 is amended and a new paragraph B31A is inserted as follows:

B31.	All *shares* and hybrid *securities* issued by any one *issuer* taken together with all such *securities* issued by a *connected company* of that *issuer*.	2.5%

B31A. In the case of a *friendly society* effecting or carrying out *with-profits policies* and holding *shares* as *long-term insurance business assets*, for *shares* that are ordinary *listed* shares in the *issuer*, the *permitted asset exposure limit* in B31 may exceed 2.5% of the *long-term insurance business amount* to a maximum of 5% of the *long-term insurance business amount* or the formula result, whichever is lower, where -

(a) the 'formula result' means 0.8 multiplied by M/T multiplied by P, expressed as a percentage of the *long-term insurance business amount,* where –

(i) M = the aggregate market capitalisation of the ordinary *listed* shares in the *issuer*,

(ii) T = the aggregate market capitalisation of all *securities* in the Financial Times Stock Exchange All Share Index; and

(iii) P = the value of the assets supporting the *friendly society's long-term insurance business* fund, determined in accordance with the *Valuation of Assets Rules*; and

(b) 'value of the assets' means the value of the assets –

(i) less the amount of the *friendly society's mathematical reserves* for *linked long-term contracts* and *non-profit policies* net of reinsurance, and

(ii) if the *friendly society* does not effect or carry out *general insurance contracts*, plus the *friendly society's* net assets outside the *friendly society's long-term insurance business* fund.

Aggregation of internal linked funds

In Appendix 8 (Long-term insurance business: revenue account, other revenue account and additional information), the following paragraph 13 is added after paragraph 12:

13. In Forms 43 and 45, self-invested *internal linked funds* (where the *policyholder* selects the investments to which his or her policy is linked) or adviser *internal linked funds* (where a financial adviser selects the investments to which a policy is linked) may be aggregated if (in either case) they meet the following conditions:

   (a) there is a precise matching of the assets of the fund with the corresponding unit liabilities;

   (b) there is no negative liquidity in the fund (that is, the sum of the values of approved securities, short-term deposits and cash held in the fund exceeds the total of the liabilities in columns 6 and 7 of Form 43); and

   (c) the *policyholder* is periodically (at least annually) provided (by the *friendly society* or the financial adviser) with the information on the investments that would otherwise be provided in the return if the funds were not aggregated, whether in the format of the relevant Forms or not.

In Appendix 9 (Abstract of actuarial investigation), the following paragraph 21(4A) is inserted after paragraph 21(4):

(4A) In Form 55, where the conditions in paragraph 13 of Appendix 8 are met, self-invested *internal linked funds* and adviser *internal linked funds* may (in either case) be aggregated.

Liability valuation rules

Paragraph 10 (rates of interest) of Appendix 5 is amended as follows:

(5B) For the purposes of (5A), the 'relevant amount' in relation to equity *shares* is the issuing *company's* profits after taxation from its ordinary activities for the ~~preceding *financial year*~~ most recent financial year ending on or before the *valuation date* which is reported in accounts in accordance with (5C) which are publicly available, in so far as attributable to those equity *shares*, so however, without prejudice to the generality of the foregoing, that account is taken of the effect of any alterations in capital structure.

(5C) For the purposes of (5B), the issuing *company's* profits after taxation from its ordinary activities for the ~~preceding *financial year*~~ relevant financial year must be derived from accounts drawn up in accordance with legislation implementing the *Accounts Directives* or, if accounts are not drawn up in accordance with the *Accounts Directives*, from accounts drawn up in accordance with International Accounting Standards Committee accounting standards or US generally accepted accounting practice.

(5D) Where (5A) applies, and a *company's* accounting period is longer or shorter than a year, the amount of profits or losses for that period must be annualised, and the annualised figure must be used to calculate the yield.

(5E) If the requirements in (5B) and (5C) are not, or cannot be, met, then the relevant amount is zero.

In Appendix 9 (Abstract of actuarial investigation), the following paragraphs 19(5A) and (5B) are inserted after paragraph 19(5) as follows:

(5A) In Form 48, to the extent that paragraph 10(5A) of Appendix 5 has not been, or would otherwise not be required to be, applied to calculate the yield on equity *shares* or holdings in *collective investment schemes*, that rule may be ignored (in which case paragraph 10(5) will apply) for an amount up to the higher of £5 million or 5% of the value of equity *shares* and holdings in *collective investment schemes* required to be reported in Form 48.

(5B) To the extent that a yield greater than zero on equity *shares* or holdings in *collective investment schemes* is not needed for the purpose of determining rates of interest under paragraph 10 of Appendix 5, paragraph 10(5) and (5A) may be ignored for an amount of up to 1% of the value of equity *shares* and holdings in *collective investment schemes* required to be reported in Form 48, and the relevant yield will be taken as zero.

In Appendix 9, in the 'Notes to Forms 48 and 49', paragraph 2 is amended as follows:

2. •The entries at 48.12.3, 48.13.3, 48.14.3 and 48.15.3 must be equal to 49.19.2, 49.29.2, 49.19.5 and 49.29.5 respectively. Subject to paragraphs 19(5A) and (5B) of Appendix 9, the yields to be inserted in column 3 of Form 48 for other categories of asset must be the running yields determined in accordance with ~~rules~~ paragraphs 10(3) to (6A) in Appendix 5.

…

EBRD

In rule 7.1, the definition of *approved financial institution* is amended as follows:

approved financial institution means any of the following –

the European Central Bank;
the central bank of an *EEA State*;
the International Bank for Reconstruction and Development;
the European Bank for Reconstruction and Development;
the International Finance Corporation;
the International Monetary Fund;
the Inter-American Development Bank;
the African Development Bank;
the Asian Development Bank;
the Caribbean Development Bank;

the European Investment Bank;
the European Community;
the European Atomic Energy Community;
and the European Coal and Steel Community.