

**INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES
(GROUPS DIRECTIVE) 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 (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) in paragraph 3(2)(b) of Appendix 4, the words "reduced ... the *related undertaking*" come into force on 1 May 2003; and
 - (2) the remainder of this instrument comes into force on 1 December 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 (Groups Directive) Instrument 2002.

By order of the Board
21 November 2002

Annex

Amendments to the Interim Prudential Sourcebook for Friendly Societies (IPRU(FSOC))

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

Appendix 4 (Asset valuation rules)

Paragraph 3(2) is amended as follows:

- (2) Where any *shares* are held by a *friendly society* in a *related undertaking* which is not an *insurance undertaking* or *insurance holding company*, the value of the *shares* must not exceed the greater of:
- (a) the value (or, where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value), determined in accordance with this Appendix (other than 15(1)(a) to (c)), of the *related undertaking's surplus assets*; and
 - (b) the value of those *shares* as determined under ~~rule 9~~ reduced:
 - (i) by an appropriate amount, to the extent that the *shares* cannot effectively be made available or realised to meet losses (if any) arising in the *friendly society*.
 - (ii) by an appropriate amount, to the extent needed to exclude value attributable to goodwill generated from business with the *friendly society* or any *related undertaking* of the *friendly society* that is an *insurance undertaking* or an *insurance holding company*; and
 - (iii) by the amount by which the value of any *shares* held by the *group undertaking* in a *related undertaking* of the *friendly society* which is an *insurance undertaking* or an *insurance holding company* exceeds the value (or *proportional share*), determined in accordance with this Appendix (other than 15(1)(a) to (c)), of the *surplus assets* of the *related undertaking*.

Paragraph 3(3) is amended as follows:

- (3) The ~~surplus assets~~ surplus assets of a *related undertaking* (other than an *insurance undertaking* or an *insurance holding company*) are its total assets excluding:

...

Paragraph 3(4) is amended as follows:

- (4) The assets selected in (3)(a) to be excluded from the total assets:
- (a) must be of a value at least equal to the amount of the liabilities of the *related undertaking*, determining that value and that amount in accordance with this Appendix (other than 15(1)(a) to (c)) and Appendix 5; and
 - (b) must not include:
 - (i) assets falling within (3)(b), or
 - (ii) assets falling within (3)(c) where the amount is due, or to become due, from a *related undertaking*; but
 - (c) notwithstanding (a), a liability of the *related undertaking* which is a *debt* due to the *friendly society* is not required to be determined at an amount which is higher than the value placed on that *debt* as an asset of the *friendly society*.

Paragraph 4 is amended as follows:

4. The value of any *debt* due, or to become due, from a *related undertaking* must not exceed the amount reasonably expected to be recovered in respect of the *debt* taking into account only the value of:
- (a) the assets identified in 3(3)(a) and, in the case of a *related undertaking* which is an *insurance undertaking*, to cover the *required minimum margin* that would apply if the undertaking were a *directive friendly society* (other than a *flat rate benefits business friendly society*) to which *IPRU(FSOC)* applies (whether it is or not); and
 - (b) any ~~security~~ security held in respect of the *debt*.

Paragraph 15(5A) is inserted after paragraph 15(5) as follows:

- (5A) Assets of *dependants* of the *friendly society* that are *debts* due or to become due from the *friendly society* or from a *dependant* of the *friendly society* must not be taken into account in any of the calculations described in (1).

In Annex B of Appendix 4, paragraphs B11A and B15A are amended as follows:

B11A. Subject to B11B and B11C, The the amount of the friendly society's exposure to assets arrived at under B4 to B11 must be increased by an amount representing the exposure, if any, of the friendly society's dependants to assets of that description; calculating that exposure by applying B4 to B11 to each dependant as if it were a friendly society.

B11B. For the purposes of B11A, the exposure of each dependant must be calculated by applying B4 to B11 to that dependant as if it were a friendly society to which those provisions apply (whether it is or not).

B11C. In relation to a dependant:

(a) which is an insurance undertaking; or

(b) for which 15(1)(a) to (c) have (notwithstanding 3(4)(a)) been applied when valuing the assets selected under 3(3)(a).

11A applies only in relation to the dependant's surplus assets (or proportional share).

B15A. Subject to B15B, The the amount arrived at under B13 to B15 must be increased by the amount by which any dependant of the friendly society is exposed to a the same counterparty.

B15B. In relation to a dependant:

(a) which is an insurance undertaking; or

(b) for which 15(1)(a) to (c) have (notwithstanding 3(4)(a)) been applied when valuing the assets selected under 3(3)(a).

B15A applies only in relation to the dependant's surplus assets (or proportional share).

Chapter 7 (Definitions)

The definition of *dependant* in rule 7.1 is amended as follows:

dependant of a friendly society means –

(a) a ~~subsidiary undertaking~~ of that friendly society; or

(b) a body jointly controlled by that friendly society and another person, within the meaning of section 13 of the 1992 Act,

the value of whose ~~shares~~ *shares* is taken to be the value of its ~~surplus assets~~ *surplus assets* under paragraph 3(1) or (2)(a) of Appendix 4.

The definition of *designated state or territory* in rule 7.1 is amended as follows:

designated state or territory means any *EEA State* (other than the United Kingdom), Switzerland, a state in the United States of America, the District of Columbia, Puerto Rico, Canada or a province of Canada, Australia, South Africa, Singapore and Hong Kong.

A definition of *proportional share* is added as follows:

proportional share means, in relation to a *related undertaking*, the percentage which is the percentage holding (directly or indirectly) in the *related undertaking's* capital.

The definition of *surplus assets* in rule 7.1 is amended as follows:

surplus assets has the meaning given in ~~rule~~ paragraph 3(3) of Appendix 4 except that in relation to a *related undertaking* which is an *insurance undertaking* or an *insurance holding company* it has the meaning given in *IPRU(INS)*.

Guidance

Paragraph 13 is added to Annex 4 (Guidance on margins of solvency and the guarantee fund) as follows:

Shares in and debts due from a related undertaking

13. Annex C of Guidance Note 4.1 (Guidance for insurers and auditors on the Valuation of Assets Rules) in *IPRU(INS)* applies to *friendly societies* for the purposes of the valuation of *shares* held in and *debts* due, or to become due, from a *related undertaking* under paragraphs 3 and 4 of Appendix 4.

Annex 6 (Guidance on prudential reporting) is inserted after Annex 5 as follows:

Annex 6

GUIDANCE ON PRUDENTIAL REPORTING

Intra-group transactions

Section 20 of Guidance Note 9.1 (Preparation of annual returns) in *IPRU(INS)* applies to *friendly societies* for the purposes of the reporting of *material connected-party transactions* under rule 5.25.