INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES

GUIDANCE

THE PURPOSE OF THE PRUDENTIAL RULES FOR FRIENDLY SOCIETIES AND AN OVERALL DESCRIPTION

1. The prudential rules for a *friendly society* are to be seen in the context of the Principles for Businesses. These are high level obligations applying to all authorised persons and are set out in the High Level Standards part of the Handbook (PRIN).

2. So far as a *friendly society* is concerned, the Principles for Businesses are particularly relevant to its internal systems and controls. Principle 3, for example, requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. Principle 4 requires a firm to maintain adequate financial resources.

3. In addition to the general obligations placed on a *friendly society*, certain staff of all authorised persons are subject to a number of high level obligations, referred to as Statements of Principle. The FSA has issued a Code of Practice to help determine whether an approved person's conduct has complied with a Statement of Principle. The Statements and the Code are set out in the High Level Standards part of the Handbook (APER).

4. One of the features of a *contract of insurance* is the long period of risk the contract may cover. The prudential rules for *friendly societies* seek to protect the *policyholder* against the risk that a *friendly society* will fail to meet a valid *claim* as it falls due or to fulfil the reasonable expectations of *policyholders*.

6. Chapter 2 covers compliance and supervision of *registered branches* and *subsidiaries* and jointly controlled bodies.

7. Chapter 3 focuses on systems and controls. *Friendly societies* should also refer to the provisions on senior management arrangements, systems and controls in the High Level Standards part of the Handbook (SYSC) and to Annex 3 of *IPRU(FSOC*).

8. The rules in Chapter 4 set out the *required margins of solvency* for a *friendly society* having regard to the type of its business.

9. The extent to which an asset may be taken into account for prudential purposes, and the method of valuing it, is determined in accordance with the rules in the Appendices. It is a fundamental part of the approach to prudential regulation for *friendly societies* that the rules limit the assets which are 'admissible' for solvency purposes and specify the methods of valuation. Similarly, the amount of a liability is determined in accordance with the rules in the Appendices.

11. As part of the continuing supervision of a *friendly society*, the rules in Chapter 5 require the *friendly society* to prepare certain accounts and statements in accordance with the rules and deposit them with the *FSA*. In addition, Chapter 6 requires a *friendly society to* make certain statistical returns.

12. Chapter 7 contains the definitions used throughout *IPRU(FSOC)* and some general provisions.

13. Chapter 8 contain transitional provisions.

14. The Appendices are part of the rules.

15. *FSA* guidance is set out in the Annexes and *friendly societies* may also wish to refer to the guidance in *IPRU(INS)* and *PRU.*

INTERIM PRUDENTIAL SOURCEBOOK

FOR FRIENDLY SOCIETIES

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Chapter 1

APPLICATION

Application

1.1 These rules apply to a *non-directive friendly society* which has permission under the *Act* to effect or carry out *contracts of insurance*.

1.1A The rules in Chapters 1, 2, 3 (with the exception of rule 3.1(7)), rule 4.20, rule 5.1A, Chapters 7 and 8 also apply to a *directive friendly society* which has permission under the *Act* to *effect* or *carry out contracts of insurance*.

Actions for damages

1.2 Section 150(1) of the *Act* does not apply.[1]

[1] A private person therefore has no right of action under this section against a *friendly society* for breach of the prudentialrules.

Chapter 2

INTEGRITY, SKILL, CARE AND DILIGENCE

Legal compliance

2.1 A *friendly society* must take reasonable steps to ensure that –

(a) it does not carry on activities beyond its powers;

(b) it and its *registered branches* comply with –

(i) any requirements of or under the *1992 Act* or the *Act* which relate to the conduct of its *insurance business*, and

(ii) any requirement (whether of the law of any part of the United Kingdom or of the law of another *EEA State*) which gives effect to the *insurance Directives* or is otherwise applicable to the insurance activities of the *friendly society*.

Supervision of subsidiaries and jointly-controlled bodies

2.2 (1) A *friendly society* must supervise the activities-

(a) of any *subsidiary* or of any body of which the *friendly society* has joint control; and

(b) of any *registered branch* of the *friendly society*;

with due care and diligence, having due regard to the interests of its *policyholders* and without detriment to the conduct of the *friendly society's* activities.

2.3 (1) A *friendly society* should ensure that its *subsidiaries*, *jointly controlled bodies*, or *registered branches* are-

(a) directed and managed with prudence, integrity and adequate professional skill; and

(b) comply with any applicable requirements of or under the *Act* and the *1992 Act*.

(2) Contravention of (1) may be relied upon as tending to establish contravention of rule 2.2

Chapter 3

MANAGEMENT AND CONTROL

Accounting records and systems of control

3.1 (1) Every *friendly society* must and must procure that every *registered branch*-

(a) keep (or keeps) adequate accounting records; and

(b) establish and maintain (or establishes and maintains) adequate systems of control of its business and records and of inspection and report.

(2) The accounting records must be sufficient to-

(a) comply with the requirements of section 68 of the *1992 Act*; and

(b) enable the *friendly society* acting through the *committee* properly to discharge the duties imposed on it and them by or under the *1974 Act*,

as the case may be.

(3) The systems of control which are to be established and maintained by a *friendly society* or a *registered branch* are systems for the control of the conduct of their activities in accordance with the *Act* and the *1992 Act* and the decisions of the *committee*, and for the control of the accounting and other records of its activities.

(4) The system of inspection and report which is to be established and maintained by a *friendly society* or *registered branch* is a system of inspection on behalf of and report to the *committee* on the operation of the systems of control required by (1) (b).

(5) The systems of control and of inspection and report must be adequate to enable the *committee* properly to discharge the duties imposed on it by or under the *Act*, the *1992 Act* or the *1974 Act* and the functions of direction of the affairs of the *friendly society* or *registered branch.* No such system of control will be treated as adequate unless there is kept available to the *committee* a detailed statement in writing of the system as in operation for the time being.

(6) Without prejudice to the generality of (5), the systems of control and of inspection and report must be such as to secure that the activities of the *friendly society* or *registered branch* are so conducted and its records so kept that-

(a) the information necessary to enable the *committee* to discharge its duties and functions is sufficiently accurate, and is available with sufficient regularity or at need and with sufficient promptness, for those purposes; and

(b) the information regularly obtained by or furnished to the *FSA* under or for the purposes of this *Act* or the *1992 Act* is sufficiently accurate for the purpose for which it is obtained or furnished and is furnished at the regularity required by or under the *Act* or the *1992 Act*[2].

(7) Every *non-directive friendly society* must within the period of 6 months beginning with the end of each *financial year* make and send to the *FSA* a statement of their opinion whether the requirements of this rule have been complied with in respect of that year by the *friendly society* and the statement must be signed by the chairman on behalf of the *committee* and by the chief executive.[3]

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[3] See SUP 16.3.6 to 16.3.10R for rules on the submission of periodic reports.

Chapter 4

FINANCIAL PRUDENCE

I. MARGINS OF SOLVENCY

Basic requirement[4]

4.1 (1) Subject to (3), a *friendly society* (other than a *flat rate benefits business friendly society)* must maintain a *margin of solvency* equal to or greater than the *required margin of solvency* calculated in accordance with rules 4.2 to 4.10.

(2) Where a *friendly society* carries on both *long-term insurance business* and *general insurance business*, (1) has effect as if the requirement to maintain a margin of solvency were a requirement to maintain separate margins in respect of the two kinds of business.

(3) As long as the society maintains an excess of the value of its assets over the amount of its liabilities, (1) does not apply to a *non-directive friendly society* which does not have permission to effect *contracts of insurance* and is only carrying out contracts of *long-term* or *general insurance business* which were effected before 13 September 1993 (or effected pursuant to the terms of such a contract).

(4) A margin of solvency is the excess of the value of the *friendly society*'s assets over the amount of its liabilities, that value and amount being determined in accordance with the *asset valuation rules* and *liability valuation rules* and rule 4.7.

Calculating the required margin of solvency

4.2 (1) Subject to (2) to (7), the *required margin of solvency* must be determined -

(a) with respect to a *friendly society* which carries on *long-term insurance business*, in accordance with Appendix 1; and

(b) with respect to a *friendly society* which carries on *general insurance business*, by taking the greater of:

(i) the higher of the two sums resulting from the application of the method of calculation set out in Part I of Appendix 2, and

(ii) the sum resulting from the application of the method of calculation set out in Part II of Appendix 2.

(2) For a *contract of insurance* to which rule 7.6(a) applies, the *required margin of solvency* must be determined by taking the aggregate of the results arrived at by applying-

[4] The requirement for a plan for the restoration of a sound financial position to be submitted by a *friendly society* which breaches this rule is in *SUP*, App II.

(a) in the case of so much of the contract as is within any *class* of *long-term insurance business*, the appropriate method under Appendix 1 for that *class*; and

(b) in the case of so much of the contract as is within *general insurance business class* 1 or 2, the method of calculation set out in (1)(b).

(3) Where a *friendly society* carries on *long-term insurance business* and owing to the nature of that business more than one *required margin of solvency* is produced in respect of that business by the operation of these rules, the margins in question must be aggregated.

(4) Where a *friendly society* carries on both *long-term insurance business* and *general insurance business* and is accordingly required to maintain separate *margins of solvency* in respect of the two kinds of business-

(a) the provisions in (1) to (3) apply for determining the *required margin of solvency* for each kind of business separately; and

(b) assets other than those representing the funds maintained by the *friendly society* in respect of its *long-term insurance business*, if they are not included among the assets covering the liabilities and the *required margin of solvency* relating to the *friendly society*'s *general insurance business*, may be included among the assets taken into account in covering the liabilities and the *required margin of solvency* for the *friendly society*'s *long-term insurance business*.

(5) Subject to (6), in each case in which (1)(b) applies, if the *required margin of solvency* under (1)(b) is lower than the *required margin of solvency* of the preceding *financial year*, then the *required margin of solvency* must be adjusted so it is at least equal to the *required margin of solvency* of the preceding *financial year* multiplied by the ratio of the amount of the *technical provisions* for *claims* outstanding at the end of the preceding *financial year* and the amount of the *technical provisions* for *claims* outstanding at the beginning of the preceding *financial year*.

(6) For the purpose of (5) –

(a) *technical provisions* must not be discounted, or reduced, to take account of investment income, unless -

(i) they relate to risks in *classes* 1 or 2; or

(ii) they are reduced to reflect the discounting of annuities; and

(b) *technical provisions* must be calculated net of reinsurance; but
(c) the ratio must not be higher than 1.

(7) Where the nature or quality of reinsurance relied on to reduce the *required margin of solvency* changes significantly during the *financial year*, a *friendly society* must notify the *FSA* forthwith of the change.

The guarantee fund[5]

4.3 A *non-directive incorporated friendly society* must ensure that its *margin of solvency* does not fall below the *guarantee fund*.

Calculating the guarantee fund

4.4 (1) Subject to (2) to (5), one-third of the *required margin of solvency* constitutes the guarantee fund.

(2) In the case of a *friendly society* which is a *non-directive incorporated friendly society* the *guarantee fund* must not be less than an amount (the minimum guarantee fund) arrived at in accordance with rule 4.5 for *long-term insurance business* and rule 4.6 for *general insurance business,* whether the *required margin of solvency* is greater or less than that amount.

(3) In the case of *long-term insurance business*, items that are not *implicit items* must be at least large enough to cover either the *minimum guarantee fund* or 50% of the *guarantee fund*, whichever is the greater.

(4) In the case of *general insurance business,* the unpaid initial fund of a *friendly society* and, in the case of a *friendly society* with variable contributions, any claim which the *friendly society* has against its members by way of a call for supplementary contributions for a *financial year* may not be taken into account in complying with (1).

(5) In the case of *long-term insurance business*, the unpaid initial fund of a *friendly society* and *implicit items* which relate to future profits and *zillmerising* may not be taken into account in complying with (1).

Minimum guarantee fund: long-term insurance business

4.5

(2) For a *non-directive incorporated friendly society*, in the *financial year* during which the *friendly society* first obtains permission under the *Act* to carry on *long-term insurance business*, the *minimum guarantee fund* is the amount in column 2 of the table, which corresponds to the *friendly society*'s *annual contribution income* in respect of that business in the last preceding *financial year,* as shown in column 1 of the table.

Contribution Income (in Euro)	*Minimum guarantee fund* (in Euro)
1,000,000 or less	100,000
1,000,001 - 1,500,000	200,000
1,500,001 - 2,000,000	300,000
2,000,001 - 2,500,000	400,000
2,500,001 - 3,000,000	500,000
3,000,001 or more	600,000

But where the *friendly society* had no *annual contribution income* in respect of *long-term insurance business* in the last preceding *financial year* or has not

[5] The requirement for a short term plan to be submitted by a *friendly society* which breaches this rule is imposed by *SUP*, App 2

been in existence long enough to have a preceding *financial year*, the *minimum guarantee fund* is 100,000 Euro.

(3) In any subsequent *financial year* during which a *non-directive incorporated friendly society* has permission to carry on *long-term insurance business*, the *minimum guarantee fund* is the greater of either-

(a) the amount in column 2 of the table in (2) that corresponds to the *friendly society*'s *annual contribution income* in respect of *long-term insurance business* in the last preceding *financial year*; or

(b) the amount of the *minimum guarantee fund* required to be maintained by the *friendly society* in the last preceding *financial year*.

(4) Where a *non-directive incorporated friendly society* obtains permission under the *Act* (or has obtained permission under the *Act* or authorisation under its predecessor legislation) to carry on *long-term insurance business*-

(a) of a *class* additional to that in respect of which it already has permission; or

(b) in a part of the United Kingdom additional to that in respect of which it already has permission,

a *minimum guarantee fund* of 600,000 Euro must be maintained by that *friendly society* for the whole of its *long-term insurance business* (that is to say, not only for the additional business carried on but also for the business previously carried on).

Minimum guarantee fund: general insurance business

4.6

(2) For *non-directive incorporated friendly societies*, the *minimum guarantee fund* for *general insurance business* is 225,000 Euro.

Valuation of solvency margins

4.7 (1) Where a *friendly society* has assets equal to or in excess of its liabilities as valued in accordance with the *asset valuation rules* and *liability valuation rules*, then (2) to (5) have effect for determining the extent to which the value of the assets exceeds the amount of liabilities in connection with the *margin of solvency*, the *required margin of solvency*, the *guarantee fund* and the *minimum guarantee fund*.

(2) In the case of a *friendly society* with variable contributions carrying on *general insurance business*, any claim which a *friendly society* has against its members by way of a call for supplementary contributions for a *financial year* must be treated as having no value.

(3) The items which relate to future surpluses, *zillmerising* and hidden reserves (referred to as implicit items) must be treated as having no value. A *friendly society* which applies for a waiver of this rule under section 148 of the *Act* with respect to future profits must submit with the application for waiver:

(a) an actuarial report substantiating the likelihood of the emergence of the future profits in the future; and

(b) a plan as to how it intends to comply with the future limits on, and termination of use of, implicit items for future profits required by the Life Directive (2002/83/EC).

(4) The unpaid initial fund of a *friendly society* must be treated as having no value.

(5) Subject to (6), in the case of a *friendly society* which discounts or reduces its *technical provisions* for *claims* outstanding to take account of investment income as permitted by article 60(1)(g) of the *Insurance Accounts Directive*, the *margin of solvency* must be reduced by the difference between: -

(a) the undiscounted *technical provisions* for *claims* outstanding or the *technical provisions* for *claims* outstanding before deductions; and

(b) the discounted *technical provisions* for *claims* outstanding or the *technical* provisions for *claims* outstanding after deductions.

For these purposes, *technical provisions* must be calculated net of *reinsurance*.

(6) (5) does not apply to risks in *classes* 1 or 2 or in respect of the discounting of annuities.

(7) For the purposes of the rules in Chapter 4 and the definition of *non-directive friendly society*, the exchange rate from the Euro to the pound sterling for each year beginning on 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all the European Union member states were published in the Official Journal of the European Communities.

4.8 – 4.10 [Moved to Annex 4]

II. ADEQUACY OF ASSETS

4.11 Except for rule 4.24, which applies to all *friendly societies*, the remaining rules in this chapter do not apply to *registered friendly societies.*

4.12 (1) A *friendly society* must secure-

(a) that its liabilities under *contracts of insurance*, other than liabilities in respect of *linked benefits*, are covered by assets of appropriate safety, yield and marketability having regard to the *classes* of business carried on; and

(b) without prejudice to the generality of (a), that its investments are appropriately diversified and adequately spread and that excessive reliance is not placed on investments of any particular category or description.

(2) A *friendly society* which has entered into a *linked long-term contract* must secure that, as far as practicable, its liabilities under the contract in respect of *linked benefits* are covered as follows-

(a) if those benefits are linked to the value of units in an undertaking for collective investments in transferable *securities* or to the value of assets contained in an internal fund, by those units or assets;

(b) if those benefits are linked to a share index or other reference value not mentioned in (a), by units which represent that reference value, or by assets of appropriate safety, yield and marketability which correspond, as nearly as may be, to the assets on which that reference value is based[6].

(3) A *friendly society* which has entered into a *linked long-term contract* must also secure that its liabilities under the contract in respect of *linked benefits* which are not covered by contracts of reinsurance are covered by assets of a description contained in *COBS* 21.3.1R.

(4) In (3), "*linked long-term contract*" does not include a *pension fund management contract* unless it is combined with a *contract of insurance* covering either conservation of capital or payment of a minimum interest.

V SEPARATION BETWEEN LONG-TERM INSURANCE BUSINESS ASSETS AND OTHER ASSETS

4.20 A *friendly society* which has permission to carry on *long-term insurance business* must –

(a) secure that the assets representing the funds maintained by the *friendly society* in respect of its *long-term insurance business* are only applicable for the purposes of that business; and

(b) ensure that adequate arrangements are in force for securing that transactions affecting the assets of the *friendly society* (other than transactions outside its control) do not operate unfairly between the assets representing the funds maintained by the *friendly society* in respect of its *long-term insurance business* and the other assets of the *friendly society*.

VI. LIQUIDITY

4.24 A *friendly society* must maintain liquid assets sufficient to meet its liabilities as they become due.

Chapter 5

PRUDENTIAL REPORTING

Annual actuarial investigation

5.1 (1) A *friendly society* which is a *non-directive incorporated friendly society* (other than a *flat rate benefits business friendly society*), must cause an investigation to be made, in accordance with the methods and assumptions determined by the *friendly society*, by the person or persons who for the time being are appointed to perform the *actuarial function* under the rules in *SUP* into the financial condition of the *friendly society* in respect of its *long-term insurance business* as at the end of each *financial year*.

(2) When such an investigation has been made, or when at any other time an investigation into the financial condition of the *friendly society* in respect of its *long-term insurance business* has been made with a view to the distribution of profits, or the results of which are made public the *friendly society* must-

(a) cause an abstract of the report of the investigation to be made; and

(b) deposit three copies of that abstract with the *FSA* within 6 months of the end of the *financial year* to which it relates,

and one of those copies must be signed as required by rule 5.12. The copies must be sent to Insurance Returns, The Financial Services Authority, PO Box 35747, London E14 5WP (and must not be addressed to the *friendly society's* normal supervisory contact).

(3) An investigation under this rule must include-

(a) a determination of the liabilities of the *friendly society* attributable to its *long-term insurance business*; and

(b) a valuation of any excess over those liabilities of the assets representing the fund or funds maintained by the *friendly society* in respect of that business and, where any rights of any long-term *policyholders* to participate in profits relate to particular parts of such a fund, a determination of any excess of assets over liabilities in respect of each of those parts.

(4) Rules 5.5 to 5.12 apply in respect of the abstract required by (2)(a) (referred to as the "FSC1 return").

(5) A *friendly society* that submits an FSC1 return in respect of the *financial year* ending on 31 December 2003 must also send to its normal supervisory contact at the *FSA*, by 30 June 2004, Form 60 and associated Forms 11 and 12 as amended by the Interim Prudential Sourcebook for Friendly Societies (Solvency I Directive) Instrument 2003 and the Interim Prudential Sourcebook for Friendly Societies (Amendment of Form 12) Instrument 2004.

5.1A (1) A *directive friendly society* must comply with rules 9.1 to 9.36, 9.37, and 9.39 of *IPRU (INS)* as if references to an *insurer* in those rules included a *directive friendly society.*

(2) In relation to a *directive friendly society*, references in Form 13, 14, and 15 in Appendix 9.1 of *IPRU(INS)* to the *insurance accounts rules* must be taken as referring to the *Accounts Regulations*.

Triennial actuarial investigation

5.2 (1) Subject to (1A) and at least once in every *period* of 3 years, a *friendly society* (other than a *flat rate benefits business friendly society*) which-

(a) is a *non-directive unincorporated friendly society* must cause an investigation to be made by the *appropriate actuary* into the financial condition of the *friendly society* in respect of its *insurance business*; and

(b) is a *non-directive incorporated friendly society* must cause an investigation to be made by the *appropriate actuary* into the financial condition of the *friendly society* in respect of its *general insurance business.*

(1A) (1)(a) does not apply to a *partnership pension society*.

(2) Subject to (8) or (9), when an investigation under this rule has been made, the *friendly society* must-

(a) cause an abstract of the actuary's report of the investigation to be made; and

(b) deposit three copies of that abstract with the *FSA* within 6 months of the end of the *period* to which it relates,

and one of those copies must be signed as required by rule 5.20. The copies must be sent to Insurance Returns, The Financial Services Authority, PO Box 35747, London E14 5WP (and must not be addressed to the *friendly society's* normal supervisory contact).

(3) Subject to (4), a *friendly society* must deposit with the *FSA*, not later than 6 months after each anniversary of the date to which the accounts of the *friendly society* were made up for the purposes of the last investigation into its financial condition under this rule-

(a) a certificate given by the *appropriate actuary*, in the format of Form FSC4, that there has been no material change in its financial condition in respect of its *insurance business* since it sent the last abstract under (2); or

(b) a statement by the *appropriate actuary* that he is unable to give such a certificate.[9]

[9] Ibid

(4) A *friendly society* is not under the duty imposed by (3)(b) if, before a date by which a certificate or statement must be deposited, a further investigation under this rule has been carried out and the requisite abstract has been deposited with the *FSA*.

(5) If a *friendly society* deposits with the *FSA* a statement under (3)(b), the *friendly society* must cause an investigation to be carried out under this rule, and in such a case-

(a) the date to which the *friendly society*'s accounts are made up for the purposes of the investigation must be the latest anniversary of the date to which its accounts were made up for the purposes of the last investigation under this rule; and

(b) the abstract required by (2) must be deposited with the *FSA* within 6 months of the date by which that statement was required to be deposited under (3).

(6) An investigation under this rule into the financial condition of a *friendly society* which falls within (1)(a) must include-

(a) a valuation of the liabilities of the *friendly society* attributable to its *insurance business*; and

(b) a determination of any excess over the liabilities so attributable of the assets representing the fund or funds maintained by the *friendly society* in respect of its *insurance business* and, where any rights of any long- term *policyholders* to participate in profits relate to particular parts of such a fund, a determination of any excess of assets over liabilities in respect of each of those parts.

(7) An investigation under this rule into the financial condition of a *friendly society* falling within (1)(b) must include-

(a) a valuation of the liabilities of the *friendly society* attributable to its *general insurance business*; and

(b) a determination of any excess over the liabilities so attributable of the assets representing the fund or funds maintained by the *friendly society* in respect of that business.

(8) A *non-directive unincorporated friendly society* must complete an abstract in the Form required under rule 5.13 (referred to as the "FSC2 return").

(9) A *non-directive incorporated friendly society* (other than a *flat rate benefits business friendly society*) which is carrying on *general insurance business* must complete an abstract in the Form required under rules 5.14 to 5.19 (referred to as the "FSC3 return").

(10) A *friendly society* that submits an FSC3 return in respect of the *financial year* ending on 31 December 2003 must also send to its normal supervisory contact at the *FSA*, by 30 June 2004: -

(a) Forms 11 and 12 as amended by the Interim Prudential Sourcebook for Friendly Societies (Solvency I Directive) Instrument 2003 and the Interim

Prudential Sourcebook for Friendly Societies (Amendment of Form 12) Instrument 2004; and

(b) the amounts at line 12 of amended Form 15 and line 61 of amended Form 13, if these lines contain amounts different from the amounts at the same lines of the un-amended forms.

Correction of abstracts

5.3 (1) If within 24 months of the date of deposit, the *FSA* notifies the *friendly society* that any Form (including any supplementary note to a Form) included in the FSC1, FSC2 or FSC3 return appears to it to be inaccurate or incomplete, the *friendly society* must consider the matter and within one month of the date of notification it must correct any inaccuracies and make good any omissions and deposit the relevant parts of the documents again.

(2) One of the copies referred to in (1) must be signed –

(a) by the *appropriate actuary* if the Form is the actuary's certificate;

(b) by the auditor if the Form is the auditor's report;

(c) in the case of all other Forms by the chief executive, the secretary and one *committee* member of the *friendly society* (or two members of the *committee* if the offices of chief executive and secretary are held by the same person).

The FSC1 return

5.5 (1) The FSC1 return must include:

(a) Form FSC1
(b) a balance sheet;
(c) revenue accounts;
(d) a valuation abstract;
(e) a certificate and a statement that the *friendly society* consents to the FSC1 return being placed on its *public file*; and
(f) a report of the auditors.

(2) Rules 5.6 to 5.12 apply to the preparation of the FSC1 return.

Balance sheet

5.6 (1) The balance sheet must consist of Forms 9, 13, 14, 15 and 17 (as appropriate) prepared in accordance with the instructions in Appendix 6.

(2) Form 13 must be completed in respect of -

(a) the total *long-term insurance business* assets of the *friendly society*; and

(b) the *long-term insurance business* assets appropriated by it in respect of each separate *long-term insurance business* fund or group of funds for which separate assets have been appropriated.

(3) A separate Form 13 must be completed in respect of its total assets other than *long-term insurance business* assets and its corresponding liabilities must be shown in Form 15.

(4) Form 14 must be completed in respect of -

(a) the total *long-term insurance business liabilities* and margins of the *friendly society*; and

(b) the *long-term insurance business liabilities* and margins for each separate *long-term insurance business* fund or group of funds for which separate assets have been appropriated.

5.7 For each Form 13 which a *friendly society* is required to complete in accordance with rule 5.6(2) and (3), it must complete Form 17 in respect of the same business; except that where in respect of that Form all amounts required to be shown would be zero and no supplementary note would be required, Form 13 may instead be accompanied by a supplementary note to that effect and Form 17 may be omitted.

Revenue Account

5.8 (1) The revenue account must consist of Forms 40, 40A, 40B and 40C (as appropriate) prepared in accordance with the instructions in Appendix 8 and so that-

(a) a separate Form 40 is prepared in respect of each *long-term insurance business* fund, Form 40A for each other revenue account fund and Form 40B for each management fund maintained;

(b) where there is more than one fund for ordinary *long-term insurance business* or for *industrial assurance business*, the *friendly society* must also complete a summary Form for ordinary *long-term insurance business* or for *industrial assurance business*, as the case may require; and

(c) where there is more than one fund for other revenue account funds the *friendly society* must also complete a summary Form.

(2) The revenue account must also include Forms 41 to 45 prepared separately in respect of ordinary *long-term insurance business* and *industrial assurance business* and in accordance with the instructions in Appendix 8.

Valuation abstract

5.9 The valuation abstract must consist of Forms 46 to 49, 51 to 58, 60, 11, 12 and 61A (as appropriate) prepared in accordance with the instructions in Appendix 9.

Certificate

5.10 A *friendly society* must ensure that a certificate is given in the terms, as appropriate, of Form 61B.

Auditor's Report

5.11 (1) The auditor's report in Form 61C must state whether in his opinion the balance sheet, revenue accounts, valuation abstract and certificate (Forms 9 to 45, 48, 49, 56, 58 and 60, including any supplementary notes) and information relating thereto have been properly prepared and presented in accordance with the rules in chapters 4 & 5.

(1A) To the extent that the auditor's opinion relates to matters covered by the investigation in rule 5.1

(a) the *friendly society* must ensure that the auditor takes appropriate advice from a suitably qualified *actuary* who is independent of the *friendly society*;

(b) the auditor's report in Form 61C must include a statement that the auditor has taken such advice.

(3) In giving the opinion in Form 61C, where the auditor undertaking the central audit has relied on work done at the branches by other firms of accountants, he must state that he has relied on other accountants for this work. In this case, he must ensure that a list of these firms is appended together with details of the particular branches for which they undertook the audit.

(4) Where the auditor refers in his report or any note attached thereto to any uncertainty, the report must state whether, in the auditor's opinion, that uncertainty is material to determining whether the *friendly society* has available assets in excess of its *required minimum margin*.

Signatures

5.12

(2) The auditor must sign the report in Form 61C.

(3) The FSC1 Return must be signed, in Form 61B, by the chief executive, the secretary and one *committee* member of the *friendly society* (or two members of the *committee* if the offices of chief executive and secretary are held by the same person).

FSC2 Return

5.13 (1) The FSC2 return must include –

(a) Forms FSC2, 9, 9A, 9B and 9C; and

(b) a statement that the *friendly society* consents to the FSC2 return being placed on its *public file*.

(2) Form 9A must provide a synopsis of the report by the *appropriate actuary* into the investigation into the financial condition of the *friendly society* in respect of its *insurance business* including the statements, information and comments set out in that Form, together with the *appropriate actuary*'s assessment of the financial viability of the *friendly society* and any changes that are necessary or desirable and the likely consequences of taking no action.

(3) The *appropriate actuary* must give and sign a certificate in the terms, as appropriate, of Form 9B.

(4) Form 9C must be signed by the chief executive, the secretary and one *committee* member of the *friendly society* (or two members of the *committee* if the offices of chief executive and secretary are held by the same person).

FSC3 return

5.14 (1) The FSC3 return must include:

(a) Form FSC3
(b) a balance sheet;
(c) a revenue account;
(d) a certificate by the *appropriate actuary*; and
(e) a report of the auditors.
(f) a statement that the *friendly society* consents to the FSC3 return being placed on its *public file*.

(2) Rules 5.15 to 5.19 apply to the preparation of the FSC3 return.

Balance sheet

5.15 (1) The balance sheet must consist of Forms 9, 11, 12, 13, 14, 15 and 17 (as appropriate) prepared in accordance with the instructions in Appendix 6.

(2) Form 13 must be completed in respect of *general insurance business assets*. Where a *friendly society* also carries on *long-term insurance business*, a separate Form 13 must be completed by the *friendly society* in respect of its *long-term insurance business assets* and its corresponding liabilities and margins must be shown in Form 14.

Revenue Account and Additional Information

5.16 (1) The revenue account must comply with the instructions in Appendix 7 and must be as set out in Form 20 and a *friendly society* must complete a separate account in Form 20 in respect of each *class* of *general insurance business* and a summary account in that Form in respect of the whole of the *general insurance business* carried on by it.

(2) A *friendly society* must in respect of each *class of general insurance business*, and in accordance with the instructions in Appendix 7, complete Forms 21 to 23.

(3) Form 23A must be completed, in accordance with the instructions in Appendix 7, by a *friendly society* in respect of its *general insurance business*.

Actuary's Certificate

5.17 The *appropriate actuary* must give a certificate in the terms, as appropriate, of Form 23B.

Auditor's Report

5.18 (1) The auditor's report in Form 23C must state whether in his opinion the balance sheet, revenue accounts and *general insurance business* statements (Forms 9 to 23 including any supplementary notes) and information relating thereto have been properly prepared and presented in accordance with the rules and guidance in this part of the *IPRU(FSOC).*

(2) In giving this opinion, the auditor must state whether he has relied on the identity and value of any *implicit items* valued in accordance with a waiver under section 148 of the *Act.* Where the auditor undertaking the central audit has relied on work done at the branches by other firms of accountants, he must state that he has relied on other accountants for this work. In this case, he must ensure that a list of these firms is appended together with details of the particular branches for which they undertook the audit.

(3) Where the auditor refers in his report or any note attached thereto to any uncertainty, the report must state whether, in the auditor's opinion, that uncertainty is material to determining whether the *friendly society* has available assets in excess of its *required minimum margin*.

Signatures

5.19 (1) The *appropriate actuary* must sign the certificate in Form 23B.

(2) The auditor must sign the report in Form 23C.

(3) The FSC3 Return must be signed, in Form 23D, by the chief executive, the secretary and one *committee* member of the *friendly society* (or two members of the *committee* if the offices of chief executive and secretary are held by the same person).

Completion of Forms

5.20 Rules 5.21 to 5.24 apply to the completion of any Form to be included in the *FSC return*.

Headings

5.21 The *friendly society*'s register number is to be entered on every page in the relevant box. Boxes marked ‘period ended 31 December’ must be completed so as to show, in numerals, the date of the last day of the *period* to which the *FSC return* relates. Boxes marked "OB/IB" must be completed to indicate whether the Form is completed in respect of ordinary assurance business (OB) or industrial assurance (IB). No entry must be made in a box which is shaded or is not labelled.

Information to be fairly stated

5.22 Every Form (including supplementary notes to Forms) required to be prepared under the rules in this chapter must fairly state the information provided in it on the basis required by the rules.

Valuation of assets and liabilities

5.23 Unless the context otherwise requires, the value or amount given for an asset or a liability of the *friendly society* included in any Form (or supplementary note to a Form) must be the value or amount of that asset or liability as determined in accordance with the *asset valuation rules* and *liability valuation rules* in Appendices 4 and 5.

Presentation of amounts

5.24 Some Forms permit amounts to be entered in £000 but advantage may be taken of this only if none of the entries in the relevant Form is less than £500. All entries in a Form must be in the same monetary units. Negative amounts must be shown between round brackets.

Intra-group transactions

5.25 (1) If, during the *financial year* in question, a *friendly society*, has agreed to, or carried out, a *material connected-party transaction*, it must provide a brief description of that transaction by way of supplementary note to Form 20 or Form 40.

(2) The description to be provided in accordance with (2) must state –

(a) the names of the transacting parties;

(b) a description of the relationship between the parties;

(c) a description of the transaction;

(d) the amounts involved;

(e) any other elements of the transaction necessary for an understanding of its effect upon the financial position or performance of the *friendly society*; and

(f) amounts written off in the period in respect of *debt*s due to or from *connected* parties.

(3) Transactions with the same *connected* party may be disclosed on an aggregated basis unless separate disclosure is needed for a proper understanding of the effect of the transactions upon the financial position or performance of the *friendly society*.

Chapter 7

DEFINITIONS

Part I Definitions

7.1 In this Part of the *IPRU(FSOC)*, unless the contrary intention appears, the following definitions apply –

Accounts Regulations means the Friendly Societies (Accounts and Related Provisions) Regulations 1994, S.I. 1994/1983;
accumulating with-profits policy means a *with-profits policy* which has a readily identifiable current benefit, whether or not this benefit is currently realisable, which is adjusted by an amount explicitly related to the amount of any *premium* payment and to which additional benefits are added in respect of participation in profits by additions directly related to the current benefit, or a policy with similar characteristics;
1974 Act means the Friendly Societies Act 1974;
1992 Act means the Friendly Societies Act 1992;
Accounts Directives means Council Directives 78/660/EEC for companies, 91/674/EEC for insurance companies, 86/635/EEC for banks and 83/349/EEC for consolidated accounts;
ancillary risk, in relation to a *friendly society* with permission under the *Act* to insure a principal risk belonging to one *class* of *general insurance business*, means a risk included in another such *class* which is - (a) connected with the principal risk; (b) concerned with the object which is covered against the principal risk; and (c) the subject of the same contract insuring the principal risk;
annual contribution income means, in relation to a *friendly society's long-term insurance business*, the income of the *friendly society* in a *financial year* without any deduction for reinsurance cessions;
annuities on human life does not include superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment, or of the dependants of such persons;

approved counterparty means any of the following – (a) an *approved credit institution* (b) a person who is exempt pursuant to section 43 of the Financial Services Act 1986 (c) a person who is permitted under the *Act* to conduct investment business of a kind which includes entering into *unlisted derivative contract*s as principal; or (d) in respect of a transaction involving a new issue of *securities* which are to be *listed*, the *issuer* or an *approved investment firm* acting on behalf of the *issuer*;
approved credit institution means an institution recognised or permitted under the law of an *EEA State* to carry on any of the activities set out in Annex 1 to the *Banking Consolidation Directive*;
approved derivative contract has the meaning given in 13(6) of Appendix 4;

approved investment firm means an investment firm as defined in article 2 of Council Directive 93/22/EEC of 10 May 1993 on investment services in the *securities* field;
approved securities means any of the following – (a) any *securities* issued or guaranteed by, or the repayment of the principal of which, or the interest on which is guaranteed by, and any loans to or deposits with, any of the following, namely, any government, public or local authority or nationalised industry or undertaking, which belongs to Zone A as defined in the *Banking Co-ordination Directive*; and (b) any loan to, or deposit with, an *approved financial institution*;
asset valuation rules are the rules in Appendix 4;
associate means - (a) the wife or husband or *minor son* or *daughter* of that person; (b) the trustees of any settlement under which that person has a life interest in possession, or, in Scotland, a life interest; (c) any *company* of which that person is a director; or (d) any person who is an employee or partner of that person; and if that person is a *company* – (i) any director of that *company*, (ii) any *subsidiary undertaking* of that *company*, or (iii) any director or employee of any such *subsidiary undertaking*; and if that person has made an agreement or arrangement with any other person – (iv) with respect to the acquisition, holding or disposal of *shares* or other interests in the *company* concerned or another *company* of which it is a *subsidiary undertaking*, or (v) under which they undertake to act together in exercising their voting power in relation to the *company* concerned or another *company* of which it is such an undertaking, that other person;

business amount means – (a) for a *friendly society* carrying on only *general insurance business*, the *general insurance business amount*; (b) for a *friendly society* carrying on only *long-term insurance business*, the *long-term insurance business amount*; and (c) for a *friendly society* carrying on both *general insurance business* and *long-term insurance business*, in the case of its *general insurance business assets*, the *general insurance business amount* and in the case of its *long-term insurance business assets*, the *long-term insurance business amount*;
charges for management means amounts chargeable in respect of the management of an *internal linked fund* in accordance with the rules of the *friendly society* and the conditions of those *contracts of insurance* under which *property linked benefits* are linked to the value of the fund or units of the fund;
claim means a claim against a *friendly society* under a *contract of insurance*;
claims-made policy means a contract of liability insurance which provides that no liability is incurred by the *friendly society* in respect of an incident unless – (a) the incident is notified to the *friendly society* (or its agent or representative), and (b) such notification is received by the *friendly society* (or its agent or representative) before the end of a specified *period* which is no longer than three years following the final date for which cover is provided under the contract;
claims management costs refers to those *claims* management costs required by the *Accounts Regulations* (note (4) to the income and expenditure account format) to be included in *claims* incurred other than those which, whether or not incurred through the employment of the *friendly society's* own staff, are directly attributable to particular *claims*;
class, in relation to *insurance business*, means a class of *long-term insurance business* or a class of *general insurance business* listed in Part III of chapter 7;
collective investment scheme has the meaning given in section 235 of the *Act*;
commission payable means the amounts recorded during a *financial year* of a *friendly society* as due to intermediaries and cedants in respect of the inception, amendment or renewal of *contracts of insurance*, whether or not paid during that year;
commitment means a commitment represented by *insurance business* of any of the *classes* of *long-term insurance business* specified in Part III of chapter 7
committee means the committee of management or other directing body of a

friendly society or *registered branch*;	

company includes a body corporate;

connected, in relation to two bodies corporate (A and B), means that:

(a) B is a *related undertaking* of A;

(b) B is a *participating undertaking* in A; or

(c) B is a *related undertaking* of a *participating undertaking* in A;

connected individual of a *friendly society* means a person who –

(a) controls, or is a partner of a person who controls, the *friendly society*; or

(b) is a member of the *committee* of the *friendly society* or the wife or husband or a *minor son* or *daughter* of such a member,

and for the purposes of the above a person controls a *company* if he is –

(c) a person in accordance with whose directions or instructions the *committee* is accustomed to act; or

(d) a person who either alone or with any *associate* or *associate*s is entitled to exercise, or control the exercise of, 15 % or more of the voting power at any general meeting of the *friendly society*;

connected-party transaction means the transfer of assets or liabilities or the performance of services by, to or for a *connected* person irrespective of whether or not a price is charged;

contract for differences means a contract which falls within article 85 of the Financial Services and Markets Act (Regulated Activities) Order 2001;

counterparty in relation to a *friendly society* means –

(a) any one individual;

(b) any one unincorporated body of persons;

(c) any one *company* not being a member of a *group*;

(d) any *group* of *companies* excluding any *companies* within the *group* which are *subsidiary undertakings* of the *friendly society*; or

(e) any government of a State together with all the public bodies, local authorities or nationalised industries of that State,

in which the *friendly society* has made investments or against whom it has rights whether in pursuance of a contract entered into by the *friendly society* or otherwise;

court except in relation to the winding-up of an *incorporated friendly society,* means – (a) in the case of a body whose registered office is situated in England and Wales or in Northern Ireland, the county *court* for the district in which the office is situated; (b) in the case of a body whose registered office is situated in Scotland, the sheriff in whose jurisdiction the office is situated; and, in relation to the winding-up of an *incorporated friendly society*, means the *court* which has jurisdiction under the applicable winding-up legislation to wind-up the *friendly society*;
daughter includes stepdaughter;
debt includes an obligation to pay a sum of money under a negotiable instrument;
debt security includes bonds, notes, debentures and debenture stock;
debts due or to become due includes any *debts* which would become due if the *friendly society* were to exercise any right to which it is entitled to require payment or repayment of the same;
deferred acquisition costs means those items referred to at G II under the heading "Assets" in Part I of Schedule 2 to the *Accounts Regulations*;
dependant of a *friendly society* means – (a) a *subsidiary* 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* is taken to be the value of its *surplus assets* under paragraph 3(1) or (2)(a) of Appendix 4;
deposit back arrangement, in relation to a contract of reinsurance, means an arrangement whereby an amount is deposited by the reinsurer with the cedant;
derivative contract means a *contract for differences*, a *futures contract* or an *option* and includes a contract under which the amount payable by either party is calculated by reference to the amortised value of any property;
direct insurance business has the meaning given in *IPRU(INS)*;
diversified contract for differences means a *contract for differences* whose value does not depend to a significant extent on fluctuations in the value of, or the income from, assets of any of the descriptions in B19 to B28, B30 or B32 to B38 of Part II of this Annex and *undiversified contract for differences* must be construed accordingly;
EEA insurer has the meaning given in *IPRU(INS)*;

EEA State in which a risk or commitment is situated in relation to a *contract of insurance* means – (a) where the person who entered into the contract with the *friendly society* on any date is an individual, the *EEA State* where he has his habitual place of residence on that date; and (b) in any other case, the *EEA State* where the establishment of that person is situated on that date;
equivalent securities means *securities* issued by the same *issuer* being of an identical type and having the same nominal value, description and amount;
established surplus has the meaning given in 6(7) of Appendix 5;
excess concentration with a number of counterparties has the meaning given in B17 of Annex B to Appendix 4;
exposure – (a) in relation to assets, means an amount determined in accordance with B4 to B12 of Annex B to Appendix 4; (b) in relation to a *counterparty*, means an amount determined in accordance with B13 to B17 of Annex B to Appendix 4;
financial year means the period of 12 months ending with 31 December and the initial *financial year* of a *friendly society* must be such period as expires at the end of the calendar year in which it is registered under the *1974 Act* or incorporated under the *1992 Act* and the final *financial year* of the *friendly society* must be such shorter period than 12 months as expires on the date as at which the *friendly society* makes up its final accounts;
fixed interest securities means *securities* which under their terms of issue provide for fixed amounts of interest;
FSC return means any of FSC1 return, FSC2 return and FSC3 return;
Futures contract means a contract which falls within article 84 of the Financial Services and Markets Act (Regulated Activities) Order 2001;
general insurance business means *insurance business* of any of the *classes* of general insurance specified in Part III of chapter 7;

general insurance business amount means the higher of – (a) the total of: (i) the *friendly society's insurance liabilities* (net of reinsurance ceded) in respect of *general insurance business* less *debts*:- (A) which are due from *dependants* to which paragraph B11C of Part 1 of Annex B of Appendix 4 relates, (B) which are not reinsurance which has already been netted off the *friendly society's insurance liabilities*, and (C) which are included in *general insurance business assets*; which amount is to be zero where the *debts* are greater than the *friendly society's insurance liabilities*, and (ii) an amount equal to whichever is the greater of 400,000 Euro or 20% of the *general premium income*; or (b) such other amount as the *friendly society* may select not exceeding:- (i) the value of its *general insurance business assets* as determined in accordance with the *asset valuation rules*; (ii) excluding *debts* due from *dependants* to which paragraph B11C of Part 1 of Annex B of Appendix 4 relates and *reinsurance recoveries*; and (iii) less *debts* due to *dependants* of the *friendly society* included in *general insurance business liabilities* (excluding *reinsurance recoveries*, other than amounts due or that relate to claims already paid by the *dependant*) except that for a *dependant* to which paragraph B11C of Part 1 of Annex B of Appendix 4 does not relate, the amount deducted will not exceed the *dependant's surplus assets* (or *proportional share*);
general insurance business assets means assets of a *friendly society* or *insurance company* which are, for the time being, identified as representing the *general insurance business* fund or funds maintained by that body in respect of its *general insurance business*, and *general insurance business liabilities* means liabilities of the body which are attributable to its *general insurance business*;
general premium income means, in any year, the net amount, after deduction of any *premiums* payable for reinsurance, of the *premiums receivable* in that year in respect of all *insurance business* other than *long-term insurance business*;

gross premiums, in relation to a *friendly society* and a *financial year* – (a) means *premiums* after deduction of discounts, refunds and rebates of *premium* but before deduction of *premiums* for reinsurance ceded and before deduction of *commission payable* by the *friendly society*; and (b) includes *premiums receivable* by the *friendly society* under reinsurance contracts accepted by the *friendly society*;	
gross premiums earned in respect of a *financial year* means such proportion of *gross premiums receivable* as is attributable to risk borne by the *friendly society* during that *financial year*;	
group has the meaning given in section 262(1) of the Companies Act 1985 where applicable, otherwise section 474(1) of the Companies Act 2006;	
guarantee fund has the meaning given in rule 4.4(1);	
hybrid linked contract means a *contract of insurance* the effecting of which constitutes the carrying on of *long-term insurance business* and which contains an option or options such that at some future time the contract may, according to how such option or options are exercised, constitute either a *linked contract* or a *non-linked contract*;	
implicit items has the meaning given in rule 4.7(3);	
incepted refers to the time when the liability to risk of a *friendly society* under a *contract of insurance* commenced and, for this purpose, a contract providing continuous cover is deemed to commence on each anniversary date of the contract;	
initial margin in respect of a *derivative contract* or a contract or *asset* having the effect of a *derivative contract* means assets which, before or at the time the contract is entered into, are transferred by the *friendly society* subject to a condition that such assets (or, where the assets transferred are *securities*, *equivalent securities*) will be returned to the *friendly society* on completion of that contract;	
insurance company means a person or body of persons (whether incorporated or not) carrying on *insurance business* other than a *friendly society*;	
insurance Directives means – (a) the *first non-life Directive, the second non-life Directive* and the *third non-life Directive*, and such other Directives as make provision with respect to the business of direct insurance other than long-term assurance; and (b) the *Consolidated Life Directive*, and such other Directives as make provision with respect to the business of direct long-term assurance;	

insurance holding company means a *parent undertaking* whose main business is to acquire and hold *participations* in *subsidiary undertakings*, where: (a) those *subsidiary undertakings* are exclusively or mainly *insurance undertakings*; (b) at least one of those *subsidiary undertakings* is a *UK insurer* or an *EEA firm* that is a *regulated insurance entity*; and (c) it is not a *mixed financial holding company*.
insurance liabilities means amounts calculated in accordance with *liability valuation rules* in respect of those items shown at C and D under the heading "Liabilities" in Part I of Schedule 2 to the *Accounts Regulations*;
intermediary means a person who in the course of any business or profession invites other persons to make offers or proposals or to take other steps with a view to entering into *contracts of insurance* with a *friendly society*, other than a person who only publishes such invitations on behalf of, or to the order of, some other person;
internal linked fund means an account to which a *friendly society* appropriates certain *linked assets* and which may be sub-divided into units the value of which is determined by the *friendly society* by reference to the value of those *linked assets;*
issuer in respect of a *collective investment scheme* means the manager or operator of the scheme and in respect of an interest in a limited partnership means the partnership;
jointly controlled body is to be construed in accordance with section 13 of the *1992 Act*;
liability valuation rules are the rules in Appendix 5;
linked assets means, in relation to a *friendly society*, *long-term insurance business assets* of the *friendly society* which are, for the time being, identified in the records of the *friendly society* as being assets by reference to the value of which *property linked benefits* are to be determined;

linked benefits, in relation to a *linked long-term contract*, means benefits payable to the *policyholder* which are determined by reference to the value of or the income from property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified);
linked contract means a contract falling within *class* III, and *non-linked contract* must be construed accordingly;
linked long-term contract means a *contract of insurance*, the effecting of which constitutes the carrying on of *long-term insurance business*, and under which *linked benefits* are payable;
listed means, in relation to an investment – (a) that the investment is included in an *official list*; or (b) that facilities have been granted for dealing in that investment on a *regulated market*, and *unlisted* must be construed accordingly;
long-term insurance business means *insurance business* of any of the *classes* of long-term insurance specified in Part III of chapter 7;

long-term insurance business amount means the higher of –

(a) the total of:

(i) the *friendly society's insurance liabilities* in respect of *long-term insurance business* (net of reinsurance ceded and the amount of any deposit back under a *deposit-back arrangement* in relation to a contract of reinsurance in respect of *long-term insurance business*;

(A) excluding *property linked liabilities*; and

(B) less:

(i) the amount of any *debt*, that is a *long-term insurance business asset* (excluding reinsurance ceded which has already been deducted from the *friendly society's insurance liabilities*), due from a *dependant* to which paragraph B11C of Part 1 of Annex B of Appendix 4 relates, and

(ii) the amount of any *implicit item* valued in accordance with a waiver under section 148 of the *Act*;

(which amount is to be zero where the result is negative); and

(ii) the amount of the *required minimum margin* for its *long-term insurance business* determined in accordance with rules 4.2 and 4.5 and Appendix 1 (or, in the case of a *friendly society* whose head office is not in the United Kingdom, that amount which would apply if its head office were in the United Kingdom); or

(b) such other amount as the *friendly society* may select not exceeding the value of its assets determined in accordance with the *asset valuation rules*,

(i) excluding:

(A) *reinsurance recoveries*;

(B) assets required to match *property linked liabilities*;

(C) *debts* due from *dependants* of the *friendly society* to which paragraph B11C of Part 1 of Annex B of Appendix 4 relates; and

(D) if the *friendly society* is a *general insurer*, *general insurance business assets*, and

(ii) less:

(A) if the *friendly society* is a *general insurer*, *debts* due to *dependants* of the *friendly society* included in *long-term insurance business liabilities* (excluding *reinsurance recoveries* (other than amounts due or that relate to claims already paid by the *dependant*)), or

(B) if the *friendly society* is not a *general insurer*, *debts* due to *dependants* of the *friendly society* (excluding *reinsurance recoveries* (other than amounts due or that relate to claims already paid by the *dependant*)),

but for the purposes of (ii) above, for *dependants* to which paragraph B11C of Part 1 of Annex B of Appendix 4 does not relate, the amount deducted will not exceed the *dependant's surplus assets* (or *proportional share*);

except that for the purposes of determining the *permitted asset exposure limit* under paragraph B3 of Annex B of Appendix 4, *index linked liabilities* must also be excluded from (a)(i) and assets required to match such liabilities must be also excluded from (b);

long-term insurance business assets means assets of a *friendly society* or *insurance company* which are, for the time being, identified as representing the *long-term insurance business* fund or funds maintained by that body in respect of its *long-term insurance business*; and

long-term insurance business liabilities means liabilities of the body which are attributable to its *long-term insurance business*;

long-term gilt yield means the annualised equivalent of the 15 year medium coupon yield for United Kingdom Government fixed-interest *securities* jointly compiled by the Financial Times, the Institute of Actuaries and the Faculty of Actuaries;

long-term liabilities means liabilities of a *friendly society* arising under or in connection with contracts for *long-term insurance business* including *liabilities* arising from *deposit back arrangements*;

management expenses means all expenses, other than commission, incurred in the administration of a *friendly society* or its business;

margin of solvency has the meaning given in rule 4.1(4);

market value means the market value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to societies;

material connected-party transaction means a *connected-party transaction* for which (together with any similar transactions): (a) the price actually paid or received for the transfer of assets or liabilities or the performance of services; or (b) the price which would have been paid or received had that transaction been negotiated at arm's length between unconnected parties, exceeds: (c) in the case of a *friendly society* that carries on either *general insurance business* or *long-term insurance business*, but not both, 5% of the *general business amount* or *long-term business amount*, as applicable; or (d) in the case of a *friendly society* that carries on both types of business either – (i) 5% of the *long-term business amount* where the transaction is in connection with the *friendly society*'s *long-term business*; and (ii) in other cases, 5% of the *general business amount;*
mathematical reserves means the provision made by a *friendly society* to cover liabilities (excluding liabilities which have fallen due and liabilities arising from *deposit back arrangements*) arising under or in connection with contracts for *long-term insurance business*;
memorandum has the meaning given by paragraph 4(3) of Schedule 3 to the *1992 Act*;
minimum guarantee fund has the meaning given in rule 4.4(2);
minor, in relation to Scotland, means not having attained the age of sixteen;
modifications, in relation to *enactments*, includes additions, omissions and amendments;
non-directive incorporated friendly society means a *non-directive friendly society* which is an *incorporated friendly society;*
non-directive registered friendly society means a *non-directive friendly society* which is a *registered friendly society;*
non-linked contract see *linked long term contract*;
non-profit policy see *with-profits policy*;
notional required minimum margin means: (a) in the case of an *insurance undertaking* (other than a *pure reinsurer*)

that has its head office in a *designated state or territory,* the amount of the *required minimum margin* or *general insurance capital requirement*, or the equivalent requirement under the regulatory requirements of that state or territory; (b) in the case of a *pure reinsurer* that has its head office in a *designated state or territory,* the amount that would be the *required minimum margin* or *general insurance capital requirement*, or the equivalent requirement under the regulatory requirements of that state or territory, if the regulatory requirements of that state or territory applicable to undertakings carrying on *direct insurance business* were applied to the *pure reinsurer* (whether they are or not); and (c) in all other cases, the amount of the *required minimum margin* or *general insurance capital requirement* that would apply if the *insurance undertaking* were an *insurer* (other than a *pure reinsurer*), with its head office in the *United Kingdom* (whether it is or not)	
officer means – (a) in relation to a *registered friendly society* or a *registered branch* – (i) a trustee; (ii) the treasurer, secretary and chief executive (however described); (iii) a member of the *committee*; and (iv) a person appointed by the *friendly society* or branch to sue or be sued on its behalf; or (b) in relation to an *incorporated friendly society*, a member of the *committee,* the chief executive (however described) and the secretary;	
option means an *option* which falls within article 83 of the Financial Services and Markets Act (Regulated Activities) Order 2001 or a *warrant*;	
ordinary long term insurance business means long-term *insurance business* which is not *industrial assurance business;*	
participating undertaking means an *undertaking* which is either a *parent undertaking* or other *undertaking* which holds a *participation* in or is linked by a *consolidation Article 12(1) relationship* with the undertaking in question	
participation means: (a) the holding of a participating interest within the meaning of section 421(2) of the *Act*; or (b) the holding, directly or indirectly, of 20% or more of the voting rights or capital;	

partnership pension society means an unincorporated *friendly society*, which satisfies the following conditions – (a) the purpose of the society is to effect or carry out unit-linked contracts to pay *annuities on human life*, which are approved by the Commissioners for HM Revenue and Customs under Section 620 of the Income and Corporation Taxes Act 1988; (b) the assets of each member of the society are separately identifiable; (c) the assets of each member of the society are invested solely or primarily by him or in accordance with his instructions; (d) the value of each member of the society's assets is dependent entirely on the performance of those assets; (e) no member of the society has a contract which comprises, or includes, a cash guarantee; and (f) no member of the society has a contract which is an annuity in payment.	
pension fund management contract means a contract to manage the investments of pension funds (other than funds solely for the benefit of the officers or employees of the person effecting or carrying out the contract and their dependants or, in the case of a *company*, partly for the benefit of officers or employees and their dependants of its *subsidiary* or holding company or a *subsidiary* of its holding company;	
period means – (a) for the purposes of completion of the FSC2 or FSC3 return, the date since the last return or three years if there was no previous actuarial investigation; and (b) for the purpose of completion of the FSC1 return the *financial year* to which the return relates;	
permanent health contract means a contract falling within *class* IV;	

permitted asset exposure limit for assets of any of the descriptions in Part II of Annex B of Appendix 4 is the percentage of the *business amount* set out opposite the relevant paragraph; in the case of an asset which is not covered by any of the descriptions in Part II of Annex B of Appendix 4 (other than a *derivative contract*), the permitted asset exposure limit is nil;
permitted counterparty exposure limit means – (a) where the *counterparty* is an individual or an unincorporated body of persons, 5% of the *business amount*; (b) where the *counterparty* is a *counterparty* of the type mentioned in (e) in the definition of *counterparty*, 5% of the *business amount*; (c) where the *counterparty* is a body corporate or *group*, each of (i) 20% of the *business amount* or £2 million, whichever is the larger, (ii) 10% of the *business amount* where the *exposure* arises otherwise than by reason that *debt*s are due, or are to become due, as a result of *short term deposit*s made with an *approved credit institution*, and (iii) 5% of the *business amount* where the *exposure* is other than to bodies which are *approved counterparties*;

premium includes a contribution in respect of an insurance benefit and the consideration for the granting of an annuity;
proper valuation means, in relation to land, a valuation made by a qualified valuer not more than three years before the *relevant date* which determined the amount which would be realised at the time of the valuation on an open market sale of the land free from any mortgage or charge;
property linked benefits means benefits other than *index linked benefits* – (a) provided for under a *linked long-term contract*; and (b) determined by reference to the value of, or income from, property of any description (whether specified in the contract or not);
property linked contract means a *linked contract* conferring *property linked benefits*;
property linked liabilities means *insurance liabilities* in respect of *property linked benefits*;
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;
provision of insurance by a *directive friendly society* in the United Kingdom or any other *EEA State* means – (a) the covering (otherwise than by way of reinsurance) of a risk situated there through an establishment in another *EEA State* ('the provision of general insurance'); and (b) the covering (otherwise than by way of reinsurance) of a *commitment* situated there through an establishment in another *EEA State* ('the

provision of long-term insurance');
proxy capital resources requirement means the *solo capital resources requirement* to which an *undertaking* would have been subject if it had a *permission* for each activity it carries on anywhere in the world, so far as that activity is a *regulated activity*.
public file, in relation to a *friendly society*, means the file relating to the *friendly society* which the *FSA* is required to maintain under section 104 of the *1992 Act*;
qualified valuer, in relation to any particular type of land in any particular area, means a person who is a fellow or professional associate of the Royal Institution of Chartered Surveyors or a fellow or associate of the Incorporated Society of Valuers and Auctioneers or a fellow or associate of the Rating and Valuation Association and either – (a) has knowledge of and experience in the valuation of that particular type of land in that particular area; or (b) has knowledge of and experience in the valuation of land and has taken advice from a valuer who he is satisfied has knowledge of and experience in the valuation of that particular type of land in that particular area;
readily realisable in relation to a *listed* investment means a *listed* investment in respect of which 9(4) of Appendix 4 does not apply or, by virtue of 9(5) of Appendix 4, is to be taken not to apply;
receivable in relation to a *friendly society*, a *period*, a *financial year* and a *premium* means, unless otherwise specified, such amounts as become due to the *friendly society*, whether or not received by the *friendly society* during that *period* or *financial year*, including (where appropriate) income which has accrued, except that in Appendix 2, "*receivable*" only includes amounts *receivable* in respect of *contracts of insurance incepted* in that *period* or *financial year*;
recoverable, in relation to a *friendly society* and a *financial year*, means recorded in the *friendly society*'s books as due in that year, whether or not the *friendly society* has received any payment;
reference period, in relation to a *friendly society*, means the three last preceding *financial years*;
registered address, in relation to a member of an *incorporated friendly society*, has the meaning given in paragraph 14(6) of Schedule 3 to the *1992 Act*;
registered branch means a branch of a *registered friendly society* which is separately registered within the meaning of the *1974 Act*;

regulated institution means any of the following – (a) an *EEA insurer* or *UK insurer;* (b) an *approved credit institution*; (c) a *friendly society* which is authorised to carry on *insurance business*; and (d) an *approved investment firm*;	
regulated market means a market which is characterised by – (a) regular operation; (b) the fact that regulations issued or approved by the appropriate authority of the state where the market is situated – (i) define the conditions for the operation of and access to the market, (ii) define the conditions to be satisfied by a financial instrument in order for it to be effectively dealt in on the market, and (iii) require compliance with reporting and transparency requirements comparable to those laid down in articles 20 and 21 of the Council Directive 93/22/EEC of 10 May 1993 on investment Services in the securities field; and (c) in the case of a market situated outside the *EEA States*, the fact that the financial instruments dealt in are of a quality comparable to those in a *regulated market* in the United Kingdom;	
regulated related undertaking means a *related undertaking* that is any of the following: (a) a *regulated entity;* (b) an *insurance undertaking* which is not a *regulated insurance entity;* (c) an *asset management company;* (d) a *financial institution* which is neither a *credit institution* nor an *investment firm;* (e) a *financial holding company;* or (f) an *insurance holding company*.	
reinsurance business means the effecting and carrying out of contracts of reinsurance;	

related undertaking means in relation to an *undertaking* 'U': (a) any *subsidiary undertaking* of U; (b) any *undertaking* in which U or any of U's *subsidiary undertakings* holds a *participation*; (c) any *undertaking* linked to U by a *consolidation Article 12(1) relationship*; or (d) any *undertaking* linked by a *consolidation Article 12(1) relationship* to an *undertaking* in (a), (b) or (c).
relevant capital sum means – (a) subject to (b) and (c): (i) for whole life assurances, the sum assured, (ii) for policies where a sum is payable on maturity (including policies where a sum is also payable on earlier death), the sum payable on maturity, (iii) for deferred annuities, the capitalised value of the annuity at the vesting date (or the cash option if it is greater), (iv) for capital redemption contracts, the sums payable at the end of the contract period, and (v) for *linked long-term contracts*, notwithstanding (i) to (iv), the lesser of: (A) the amount for the time being payable on death, and (B) the aggregate of the value for the time being of the units allocated to the contract (or, where entitlement is not denoted by means of units, the value for the time being of any other measure of entitlement under the contract equivalent to units) and the total amount of the *premiums* remaining to be paid during such part of the term of the contract as is appropriate for *zillmerising*, or, if such *premiums* are payable beyond the age of seventy five, until that age, excluding in all cases any vested reversionary bonus, (b) notwithstanding (a), where, under a contract relating to any such business as is mentioned in (a), the payment of *premiums* is to stop before the sum assured becomes due, the *mathematical reserves* appropriate for that contract at the end of the *premium*-paying term; and (c) notwithstanding (a), for temporary assurances, the sum assured on the *valuation date*;

relevant date means, in relation to the valuation of any asset for any purpose for which the *asset valuation rules* apply, the date when the asset falls to be valued for that purpose;	
relevant regulatory requirements means: (a) in the case of a *related undertaking* that is an *insurance undertaking*, established in a *designated state or territory*, at the option of the *friendly society*: (i) the regulatory requirements of that state or territory applicable to an undertaking carrying on *direct insurance business* (even if it only carries on *reinsurance* business or is an *insurance holding company*), or (ii) the requirements referred to in (b); (b) in the case of any other *insurance undertaking* or *insurance holding company*, the rules in *IPRU(INS)* applicable to an *insurer* (other than a *pure reinsurer*) with its head office in the United Kingdom (whether or not it is such an *insurer*)	
required margin of solvency has the meaning given in rule 4.2	
required minimum margin means the greater of the appropriate *required margin of solvency* and the amount of the appropriate *minimum guarantee fund*;	
securities includes *shares*, *debt securities*, Treasury Bills, Tax Reserve Certificates and Certificates of Tax Deposit;	
settlement date means any date on which the fulfilment of an obligation under a *derivative contract* is or may be required;	
share has the meaning given in Part VII of the Companies Act or Part VIII of the Companies (Northern Ireland) Order 1986;	
short term deposit means a sum of money which may be withdrawn at the discretion of the lender without penalty or loss of accrued interest by giving notice of withdrawal of one month or less;	
son includes stepson;	
subsidiary is construed in accordance with section 13 of the *1992 Act*;	
subsidiary undertaking has the meaning given in section 1162 of the Companies Act 2006;	
surplus assets has the meaning given in paragraph 3(3) of Appendix 4;	

taxes included in premiums has the same meaning as the words "taxes pertaining to the *premiums*" in the third indent of the first sub-paragraph of article 16(3) of the *first non-life Directive*;
valuation date, in relation to an actuarial investigation, means the date to which the investigation relates;
variation margin means – (a) in respect of a *derivative contract*, or a contract having the effect of a *derivative contract*, assets (other than assets transferred by way of *initial margin*) which, at the *relevant date*, have been transferred by, to, or for the benefit of, the *friendly society* in pursuance of a condition in that contract or a related contract; and (b) in respect of an asset having the effect of a *derivative contract*, assets which, at the *relevant date*, have been transferred by, to, or for the benefit of, the *friendly society* in pursuance of a contractual right conferred, or obligation imposed, by the holding of the asset having the effect of a *derivative contract*;
warrant means an instrument which falls within article 79 of the Financial Services and Markets Act (Regulated Activities) Order 2001 (SI 2001, No 544);
weighted average of the yield has the meaning given in 19(5)(d) of Appendix 9;
with-profits fund for the purposes of Chapter 5 and Appendices 6 to 10 means: (a) a *long-term insurance fund* (or that part of such a fund) in which *policyholders* are eligible to participate in any *established surplus*; and (b) where it is a *friendly society's* usual practice to restrict *policy- holders'* participation in any *established surplus* to that arising from only a part of the fund (or part fund) falling within (a), that part (or that part of the part fund);
with-profits policy means a contract falling within a *class* of long-term insurance which is eligible to participate in any part of any *established surplus*, and non-profit policy must be construed accordingly;
working day means any day other than Saturday, Sunday, Good Friday, Christmas Day and any day which is a bank holiday in any part of the United Kingdom under section 1 of the Banking and Financial Dealings Act 1971;
zillmerising means the method known by that name for modifying the net *premium* reserve method of valuing a long-term policy by increasing the part of the future *premiums* for which credit is taken so as to allow for initial expenses.

7.2 A word or phrase which is printed in italics is used in the defined sense. If a defined term does not appear in the IPRU(FSOC) glossary listed in part 1 of Chapter 7, the definition appearing in he main Handbook *Glossary* applies.

7.3 Unless the context otherwise requires, a word or phrase which is defined in a related enactment bears the same meaning as in that enactment.

7.4 Unless the context requires, a word which is related to a defined word is construed by reference to the defined word.

7.5 In *IPRU(FSOC*), the cross referencing within Forms follows the sequence "Form.Line.Column".

Subsidiary and ancillary provisions

7.6 For the purposes of *IPRU(FSOC):*

(a) a *contract of insurance* is to be treated as falling within a *class* of *long-term insurance business* notwithstanding the fact that it contains supplementary provisions falling within *class* 1 (accident) or *class* 2 (sickness) if:

(i) its principal object is that of a contract falling within a *class* of *long-term insurance business,* and

(ii) it is effected or carried out by a *friendly society* which has permission to effect or carry out contracts falling within *class* I (life and annuity); and

(b) a *contract of insurance* whose principal risk falls within any of *classes* 1, 2 or 16 is to be treated as falling within that *class* and no other, notwithstanding the fact that it also covers *ancillary risks*.

PART III

CLASSES OF LONG-TERM INSURANCE BUSINESS

Number	**Description**	**Nature of business**
I	Life and annuity	Effecting or carrying out *contracts of insurance* on human life or contracts to pay *annuities on human life,* but excluding (in each case) contracts within *class* III.
II	Marriage and birth	Marriage or the formation of a civil partnership and birth: Effecting or carrying out *contracts of insurance* to provide a sum on marriage or the formation of a civil partnership or on the birth of a child, being contracts expressed to be in effect for a period of more
III	Linked long term	Effecting or carrying out *contracts of insurance* on human life or contracts to pay *annuities on human life* where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).
IV	Permanent health	Effecting or carrying out *contracts of insurance* providing specified benefits against risks of persons becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that - (a) are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the persons concerned, or without limit of time; and (b) either are not expressed to be terminable by the *friendly society*, or are expressed to be so terminable only in special circumstances mentioned in the contract.
V	Tontines	Effecting or carrying out tontines.
VI	Capital redemption	Effecting or carrying out capital redemption contracts.

VII	Pension fund management	Effecting or carrying out- (a) *pension fund management contracts*; or (b) contracts of the kind mentioned in (a) that are combined with *contracts of insurance* covering either conservation of capital or payment of a minimum interest.

CLASSES OF GENERAL INSURANCE BUSINESS

Number	Description	Nature of business
1	Accident	Effecting or carrying out *contracts of insurance* providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of both) against risks of the person insured or, in the case of a contract made by virtue of section 140, 140A or 140B of the Local Government Act 1972, a person for whose benefit the contract is made - (a) sustaining injury as the result of an accident or of an accident of a specified class, or (b) dying as the result of an accident or of an accident of a specified class, or (c) becoming incapacitated in consequence of disease or of disease of a specified class, inclusive of contracts relating to industrial injury and occupational disease but exclusive of contracts falling within *class* 2 or within *class* IV.
2	Sickness	Effecting or carrying out *contracts of insurance* providing fixed pecuniary benefits or benefits in the nature of indemnity (or a combination of the two) against risks of loss to the persons insured attributable to sickness or infirmity, but exclusive of contracts falling within *class* IV.
16	Miscellaneous financial loss	Effecting or carrying out *contracts of insurance* against any of the following risks, namely – (a) risks of loss to the persons insured attributable to them being unemployed; (b) risks of loss to the persons insured attributable to them being in distressed circumstances; or (c) risks of loss to the persons insured attributable to sickness or infirmity, but not including of contracts falling within *class* 2 or *class* IV.

Chapter 8

TRANSITIONAL PROVISIONS

Guidance:

GEN (the part of the *FSA* Handbook in High Level Standards which has the title General Provisions) contains some technical transitional provisions that apply throughout the Handbook and which are designed to ensure a smooth transition at commencement of the *Act*. These include transitional provisions relevant to record keeping and notification rules.

SUP contains transitional provisions which carry forward written concessions relating to pre-commencement provisions.

Table 1

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional Provision: Dates in force	(6) Handbook provision: coming into force
2	*Rules* in *IPRU(FSOC)*	G	Further transitional provisions concerning *waivers* and written concessions are contained in *PRU*	See *PRU*	See *PRU*
3	*IPRU (FSOC) Rule* 5.1A	R	(1) This paragraph and Table 2 below apply to a *directive friendly society*. (2) *IPRU (FSOC) rule* 5.1A is modified so that a *directive friendly society* must comply with *IPRU (INS) rule* 9.6(1) varied as set out in Table 2.	From 31 December 2004 to 30 December 2007	31 December 2004
4	*IPRU(FSOC)* rules 4.21, 4.22, 7.1 (Definitions), Appendix 3 paragraphs 9 and 12	R	For the period given in column (5), for the purposes of the *rules* specified in column (2), a *directive friendly society* must apply the definition of *permitted derivative contract* as it takes effect in relation to a *non-directive incorporated friendly society*.	31 December 2004 to 30 December 2005	31 December 2004

5	IPRU(FSOC) rules 4.21, 4.22, 7.1 (Definitions), Appendix 3 paragraphs 9 and 12	R	(1) This paragraph applies to a contract concluded on or before 30 December 2005 which satisfies the definition of *permitted derivative contract* as it takes effect in relation to a *non-directive incorporated friendly society*. (2) In relation to a contract to which this paragraph applies, for the purposes of the *rules* specified in column (2), a *directive friendly society* may continue to apply the definition of *permitted derivative contract* as it takes effect in relation to a *non-directive incorporated friendly society*.	31 December 2004 until the relevant *rule* is revoked	31 December 2004

Table 2

This Table belongs to *IPRU(FSOC)* Chapter 8, Table 1, paragraph 3

	Deposit period following the *financial year* end	
Financial year ending on or after	Where the deposit is made electronically	Otherwise
31 December 2004	6 months	6 months
31 December 2005	6 months	6 months
31 December 2006	4 months	3 months and 15 days
31 December 2007	3 months	2 months and 15 days

8.6 (1) This transitional *rule* has effect from 31 December 2006 to 30 December 2007.

(2) For the purpose of the definition of *permitted derivative contract* in *IPRU (FSOC)* 7.1 as it applies for a *directive friendly society*:

(a) *INSPRU* 3.2.5R(3)(b) has effect as if the words "and is capable of valuation" and "to *INSPRU* 3.2.35R" were omitted;

(b) *INSPRU* 3.2.34R has effect as if it read "For the purpose of *INSPRU* 3.2.5R(3)(b), a transaction is on approved terms only if the *firm* reasonably believes that it may be readily closed out"; and

(c) *INSPRU* 3.2.35R does not apply.

Appendix 1

LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY

Long-term classes I and II

1. (1) For *long-term insurance business* of *class* I or II the *required margin of solvency* must be determined by taking the aggregate of the results arrived at by applying the calculation described in (2) ("the first calculation") and the calculation described in (3), (4) and (5) ("the second calculation").

(2) For the first calculation-

(a) a sum equal to 4% of the *mathematical reserves* for direct insurance business and reinsurance acceptances without any deduction for reinsurance cessions must be taken;

(b) the amount of the *mathematical reserves* at the end of the last preceding *financial year* after the deduction of reinsurance cessions must be expressed as a percentage of the amount of those *mathematical reserves* before any such deduction; and

(c) the sum mentioned in (a) must be multiplied-

(i) where the percentage arrived at under (b) is greater than 85% by that greater percentage, and

(ii) in any other case, by 85%.

(3) For the second calculation-

(a) subject to (4) and (5), a sum equal to 0.3% of the capital at risk for contracts on which the capital at risk is not a negative figure must be taken;

(b) the amount of the capital at risk at the end of the last preceding *financial year* for contracts on which the capital at risk is not a negative figure, after the deduction of reinsurance cessions, must be expressed as a percentage of the amount of that capital at risk before any such deduction; and

(c) the sum arrived at under (a) must be multiplied-

(i) where the percentage arrived at under (b) is greater than 50% by that greater percentage, and

(ii) in any other case, by 50%.

(4) Where a contract provides for benefits payable only on death within a specified period and is valid for a period of not more than three years from the date when the contract was first made, the percentage to be taken for the purposes of (3)(a) must be 0.1%; and where the period of validity from that date is more than three years but not more than five years, the percentage to be so taken must be 0.15%.

(5) For the purposes of (4), the period of validity of the contract evidencing a group policy is the period from the date when the *premium* rates under the contract were last reviewed for which the *premium* rates are guaranteed.

(6) For the purposes of the second calculation, the capital at risk is-

(a) in any case in which an amount is payable in consequence of death other than a case falling within (b), the amount payable on death; and

(b) in any case in which the benefit under the contract in question consists of the making, in consequence of death, of the payment of an annuity, payment of a sum by instalments or any other kind of periodic payments, the present value of that benefit,

less in either case the *mathematical reserves* in respect of the relevant contracts.

(7) When the amount of the *mathematical reserves* referred to in (2)(a), or the amount of the capital at risk referred to in (3)(a), is to be calculated for the purposes of determining the margin of solvency, the day as on which that amount is calculated must be the same as that on which the margin of solvency is determined; and the *mathematical reserves* referred to in (6) must also be calculated as on that day when the capital at risk in question is that referred to in (3)(a), but must be calculated as at the end of the last preceding *financial year* when the capital at risk in question is that referred to in (3)(b).

Long-term classes III and VII

2. (1) For *long-term insurance business* of *class* III or VII the margin of solvency must be determined in accordance with (2) to (5).

(2) In so far as a *friendly society* bears an investment risk, the first calculation must be applied.

(3) In so far as-

(a) a *friendly society* bears no investment risk; and

(b) the allocation to cover *management expenses* in the relevant contract has a fixed upper limit which is effective as a limit for a period exceeding five years,

the first calculation must be applied, but as if 1(2)(a) contained a reference to 1% instead of 4%.

(4) In so far as -

(a) a *friendly society* bears no investment risk; and

(b) the allocation to cover *management expenses* in the relevant contract does not have a fixed upper limit which is effective as a limit for a period exceeding five years, the *margin of solvency* is an amount equivalent to 25% of the preceding *financial year's* net administrative expenses pertaining to such business.

(5) Where a *friendly society* covers a death risk, a sum arrived at by applying the second calculation (disregarding 1(4) and (5)) must be added to the *margin of solvency*, including a *margin of solvency* of zero, arrived at under (2), (3) or (4).

Long-term classes IV and VI

3. (1) For *long-term insurance business* of *class* IV, the *margin of solvency* must be determined by applying the first calculation plus the sum arrived at by applying rule 4.2(1)(b) as though it were *general insurance business* of *class* 2.

(2) For *long-term insurance business* of *class* VI, the *margin of solvency* must be determined by applying the first calculation.

(3) If both (1) and rule 4.2(2)(b) apply, a single combined *margin of solvency* must be calculated under rule 4.2(1)(b) in respect of the *class* IV business and subsidiary provisions in *classes* 1 and 2.

Long-term class V

4. For *long-term insurance business* of *class* V the margin of solvency must be 1% of the assets of the relevant tontine.

Appendix 2

GENERAL INSURANCE BUSINESS SOLVENCY MARGIN

Part I: the Premiums Basis

1. The *gross premiums receivable* (or contributions, as the case may be) in respect of the *friendly society's* entire *general insurance business* for the last preceding *financial year* must be aggregated and the method of calculation set out in 2 to 14 applied.

1A. The *gross premiums earned* (or contributions, as the case may be) in respect of the *friendly society's* entire *general insurance business* for the last preceding *financial year* must be aggregated and the method of calculation set out in 2 to 14 applied.

2. From each of the aggregates arrived at under 1 and 1A there must be deducted-

    (a) any taxes included in the *premiums*; and

    (b) any levies that are related to *premiums* and are recorded in the *friendly society*'s books as payable in the last preceding *financial year* in respect of *general insurance business*.

3. The amount arrived at under 2 must be multiplied by twelve and divided by the number of months in the *financial year*.

4. Subject to rule 4.6(3), if the amount arrived at under 3 is more than 50 million Euro, it must be divided into two portions, the former consisting of 50 million Euro and the latter comprising the excess.

5. Where there has been a division into two portions pursuant to 4, there must be calculated and added together 18% and 16% of the two portions respectively; and where there has been no such division, there must be calculated 18% of the amount arrived at under 3.

6. In the case of *general insurance business* consisting of health insurance based on actuarial principles, 5 applies with the substitution of 6% for 18% and 5 and one third % for 16%, but only if all the necessary conditions are satisfied.

7. For the purposes of 6, the necessary conditions are as follows-

    (a) the *gross premiums* paid are calculated on the basis of sickness tables appropriate to *insurance business*;

    (b) the reserves include provision for increasing age or, in the case of *class* IV, either the reserves include provision for increasing age, or the business is conducted on a group basis;

    (c) an additional *premium* is collected in order to set up a safety margin of an appropriate amount;

    (d) the contract does not allow the *friendly society* to cancel the contract after the end of the third year of the contract; and

(e) the contract provides for the possibility of increasing *premiums* or reducing payments during its currency.

8. Where 6 applies to a *friendly society* whose *general insurance business* consists partly of health insurance based on actuarial principles and partly of other business, the procedure provided in 1 to 6 must operate separately for each part of the *general insurance business*, so as to produce a sum under 6 for the health insurance and a sum under 5 for the other business.

9. (1) If the provision for *claims* outstanding at the end of the last preceding *financial year* exceeds the provision for *claims* outstanding at the beginning of the *financial year* two years prior to the last preceding *financial year*, then the amount of the excess must be added to the amount of *claims* paid in the 3 year period.

(2) If the provision for *claims* outstanding at the beginning of the *financial year* two years prior to the *financial year in question* exceeds the provision for *claims* outstanding at the end of the *financial year in question*, then the amount of the excess must be deducted from the amount of *claims* paid in the 3 year period.

10. (1) For the purposes of 9, the "amount of *claims* paid", in relation to a *friendly society* and a *financial year*, is the amount that is recorded in the *friendly society*'s books at the end of the *financial year* as paid by it (whether or not payment has been effected in that year) in full or partial settlement of-

(a) the *claims* described in (2); and

(b) the expenses described in (3),

less any *recoverable* amounts within the meaning of (4).

(2) The *claims* mentioned in (1) are *claims* including *claims* relating to business accounted for over a longer period than a *financial year*.

(3) The expenses mentioned in (1) are expenses (such as, for example, legal or medical costs) which are incurred by the *friendly society*, whether through the employment of its own staff or otherwise, and are directly attributable to the settlement of individual *claims*, whether or not the individual *claims* in question are those mentioned in (1).

(4) *Recoverable* amounts for the purposes of (1) are amounts *recoverable* by the *friendly society* in respect of the *claims* mentioned in (1) or other *claims*, including amounts *recoverable* from third parties and amounts *recoverable* from other *insurance undertakings* but excluding amounts *recoverable* in respect of reinsurance ceded by the *friendly society*.

11. (1) For the purposes of 9, the "provisions for *claims* outstanding", in relation to a *friendly society* and a *financial year*, is the amount set aside by the *friendly society* as at the beginning or end of the *financial year* as being an amount likely to be sufficient to meet-

(a) the *claims* described in (2); and

(b) the expenses described in (3),

less any *recoverable* amounts within the meaning of (4).

(2) The *claims* mentioned in (1) are *claims* in respect of incidents occurring-

(a) in the case of an amount set aside as at the beginning of the *financial year*, before the beginning of that year; and

(b) in the case of an amount set aside as at the end of a *financial year*, before the end of that year,

being *claims* which have not been treated as *claims* paid and including *claims* relating to business accounted for over a longer period than a *financial year*, *claims* the amounts of which have not been determined and *claims* arising out of incidents that have not been notified to the *friendly society*.

(3) The expenses mentioned in (1) are expenses (such as, for example, legal or medical costs) which are likely to be incurred by the *friendly society*, whether through the employment of its own staff or otherwise and are directly attributable to the settlement of individual *claims*, whether or not the individual *claims* in question are those mentioned in (1).

(4) *Recoverable* amounts for the purposes of (1) are amounts estimated by the *friendly society* to be *recoverable* by it in respect of the *claims* mentioned in (1), including amounts *recoverable* from third parties and amounts *recoverable* from other *insurance undertakings* but excluding amounts *recoverable* in respect of reinsurance ceded by the *friendly society*.

12. From the amount determined under 9(1) or (2) there must be deducted the total sum *recoverable* in respect of that amount under reinsurance contracts ceded during the relevant period.

13. The amount determined under 12 must be expressed as a percentage of the amount determined under 9(1) or (2).

14. The sum arrived at under 5 or 6 or the aggregate of the sums arrived at under 5 and 6, as the case may be, must be multiplied-

(a) where the percentage arrived at under 13 is greater than 50% but not greater than 100%, by the percentage so arrived at;

(b) where the percentage so arrived at is greater than 100%, by 100%; and

(c) in any other case, by 50%.

Part II: the Claims Basis

15. If a *friendly society* has not been in existence long enough to acquire a *reference period*, this Part II does not apply to the *friendly society*, and Part I must be applied.

16. (1) If the provision for *claims* outstanding at the end of the *reference period* exceeds the provision for *claims* outstanding at the beginning of the *reference*

period, the amount of the excess must be added to the *amount of claims* paid in the *reference period*.

(2) If the provision for *claims* outstanding at the beginning of the *reference period* exceeds the provision for *claims* outstanding at the end of the *reference period*, the amount of the excess must be deducted from the amount of *claims* paid in the *reference period*.

(3) For the purposes of this paragraph, the expressions "amount of *claims* paid" and provision for *claims* outstanding have, in relation to a *reference period*, the same meaning as they have in 9 in relation to a *financial year*.

17. The aggregate obtained under 16(1) or (2) must be divided by the number of months in the *reference period* and multiplied by twelve.

18. Subject to rule 4.6(3), if the amount arrived at under 17 is more than 35 million Euro, it must be divided into two portions, the former consisting of 35 million Euro and the latter comprising the excess.

19. Where there has been a division into two portions pursuant to 18, there must be calculated and added together 26% and 23% of the two portions respectively; and where there has been no such division, there must be calculated 26% of the amount arrived at under 17.

20. In the case of *general insurance business* consisting of health insurance based on actuarial principles, 19 applies with the substitution of “8 2/3 %” for “26%” and “7 2/3 %” for “23%”, but only if all the necessary conditions are satisfied.

21. The necessary conditions for the purposes of 20 are the same as those set out in 7.

22. In a case of the kind mentioned in 8, that paragraph applies (with the necessary modifications) so as to produce separate sums under 19 and 20.

23. The sum arrived at under 19 or 20 or the aggregate of the sums arrived at under 19 and 20, as the case may be, must be multiplied by the same percentage as is applicable for the purposes of 14.

Appendix 3

PERMITTED LINKS

Part I - Descriptions of property by reference to which benefits may be determined

1. Listed securities which are *readily realisable*, not being securities which are:

   (a) *approved securities*;
   (b) loans or deposits of the kinds mentioned in 4 or 7;
   (c) units or other beneficial interests in a *collective investment fund*; or
   (d) *derivative contracts*.

2. Unlisted securities which are *readily realisable*, not being securities which are:

   (a) *approved securities*;
   (b) loans or deposits of the kinds mentioned in 4 or 7;
   (c) units or other beneficial interests in a *collective investment fund*; or
   (d) *derivative contracts.*

3. Land (including any interest in land) in an *EEA State*, Australia, Canada, the Channel Islands, Gibraltar, Hong Kong, the Isle of Man, New Zealand, the Republic of South Africa, Singapore or the United States of America.

4. Loans-

   (a) which are fully secured by mortgage (or in Scotland, by standard security) or charge on land (or any interest in land) which-

      (i) is situated in any of the countries specified in 3, and

      (ii) in the case of a loan made to a person other than a body corporate, is not used wholly or mainly for domestic purposes, and

   (b) in relation to which the rate of interest and the due dates for the payment of interest and the repayment of principal can be fully ascertained from the terms of any agreement relating to the loan.

5. Units or other beneficial interests in-

   (a) a scheme falling within the *UCITS Directive or an authorised fund which is a non-UCITS retail scheme;*

   (b) a *collective investment fund* which satisfies the following conditions-

      (i) the property of the fund comprises property of any of the descriptions in 1 to 10;

      (ii) the units are *readily realisable* at a price which represents the net value per unit of the assets and liabilities of the fund; and

      (iii) the price at which the units may be bought and sold is published regularly.

6. *Approved securities*.

7. Loans to or deposits with an *approved credit institution*, an *approved financial institution* or an *approved investment firm*.

8. Income due, or to become due, in respect of property of any of the descriptions specified in the foregoing of this Appendix.

9. *Permitted derivative contracts* and *permitted stock lending transactions*.

10. Cash.

11. Units, by whatever name called, in a real or notional fund (not being a scheme or undertaking of a kind mentioned in 5) which is limited to the descriptions of property mentioned above, not being property falling within (a) to (d) of 12, and which under the contract is to be managed either-

    (a) wholly by the *friendly society*; or

    (b) wholly or to any extent by another person being a person for whose acts and omissions in managing the fund the *friendly society* assumes responsibility towards the policyholder as if they were the acts or omissions of the *friendly society*, and otherwise (if at all) by the *friendly society*.

Part II - Restrictions on determination of benefits by reference to property described in Part I

12. Benefits payable under any contract to which rule 4.21 applies must not be determined by reference to-

    (a) property of any of the descriptions specified in 2, 5(b) or 7 if the value of such property is determined, either wholly or partly, by reference to the value of, the income from, fluctuations in the value of or fluctuations in the income from, property other than property of the descriptions in Part I;

    (b) property of the description specified in 2 in excess of 10% of the aggregate *property linked benefits* under the contract;

    (c) property of the description specified in 5(b) which in aggregate value exceeds 10% of the *property linked benefits*, unless the contract under which the benefits are payable has been marketed in accordance with any legal restrictions which apply to the marketing of the corresponding *collective investment fund*; or

    (d) property of any of the descriptions specified in Part I which has the effect of a *derivative contract* other than a *permitted derivative contract*.

Appendix 4

ASSET VALUATION RULES

Interpretation

1. (1) [deleted]

(2) For the purposes of this Appendix and Appendix 6, a *debt* owed to (or an obligation to be fulfilled for the benefit of) a *friendly society* must be regarded as being secured only to the extent that it is-

(a) secured by-

(i) a letter of credit established with an *approved credit institution*; or

(ii) a guarantee provided by an *approved credit institution*,

and the sum of the aggregate amount available under all letters of credit established for the benefit of the *friendly society* with the same *counterparty*, the aggregate amount of all guarantees issued for the benefit of the *friendly society* by that *counterparty* and the amount of any *exposure* of the *friendly society* to that *counterparty* does not exceed the *permitted counterparty exposure limit* for that *counterparty*; or

(b) secured by assets for the valuation of which provision is made in this Appendix and-

(i) the value of such assets (after deducting reasonable expenses of sale and the amount of any other *debt* or obligation secured thereon having priority to or ranking equally with the *debt* or obligation) is sufficient to enable the *debt* or obligation to be discharged in full;

(ii) the value of the assets when aggregated with the *friendly society*'s *exposure* to assets of the same description does not exceed the *permitted asset exposure limit* for assets of that description (as set out in Part II of Annex B); and

(iii) where the assets give rise to *exposure* to a *counterparty*, the *exposure* of the *friendly society* to that *counterparty*, when added to the sum of the aggregate amount available under all letters of credit established for the benefit of the *friendly society* with that *counterparty*, and the aggregate amount of all guarantees issued for the benefit of the *friendly society* by that *counterparty*, does not exceed the *permitted counterparty exposure limit* for that *counterparty*.

(3) For the purposes of (2) -

(a) the aggregate amount available under letters of credit established with a *counterparty* must be taken not to exceed the sum of the aggregate amount of all *debt*s and the aggregate value of all obligations in respect of which those letters of credit were established;

(b) the aggregate amount of guarantees issued by a *counterparty* must be taken not to exceed the sum of the aggregate amount of all *debt*s and the aggregate value of all obligations so guaranteed; and

(c) assets which are securing any other *debt* owed to (or obligation to be fulfilled for the benefit of) the *friendly society* must be treated as if they were assets of the *friendly society*.

Application

2. (1) Subject to rule 4.12(1), 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.

(2) Where a *friendly society* has entered into any contracts for the payment of *property linked benefits*, 3 to 15 do not apply with respect to the determination of the value of the *linked assets* to the extent that they are held in compliance with the requirements of rule 4.12(2) and (3) to match liabilities in respect of such benefits under such contracts and the value of such assets must be determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate for *insurance business*.

(3) Any asset to which 2 to 15 apply (other than cash) for the valuation of which no provision is made in those paragraphs must be left out of account for the purposes specified in (1).

(4) Where in all the circumstances of the case it appears that any asset is of a lesser value than the amount calculated in accordance with the *asset valuation rules*, such lesser value must be the value of the asset.

(5) For the purposes of (4), in determining whether it appears that an asset is of a lesser value than the amount calculated in accordance with the *asset valuation rules*, regard must be had to the underlying security and in, the case of bonds, *debt securities* and other money and capital market instruments, the credit rating of the *issuer*, including whether the *issuer* belongs to Zone A as defined in the Council Directive 89/647/EEC of 18 December 1989 on a solvency ratio for credit institutions and, where the *issuer* is an international organisation, whether it includes at least one *EEA State* among its members.

(6) Notwithstanding (1) (but subject to the conditions set out in (7) and subject to (10)) and in relation to an actuarial investigation of its *long-term insurance business* only, a *friendly society* may elect to assign to any of its assets the value given to the asset in question in the books or other records of the *friendly society*.

(7) The conditions referred to in (6) are-

(a) that the election must not enable the *friendly society* to bring into account any asset for the valuation of which no provision is made in this Appendix;

(b) that the value assigned to the aggregate of the assets must not be higher than the aggregate of the value of those assets as determined in accordance with the *asset valuation rules*.

(8) Where a *friendly society* has entered into a contract for the conversion of currency which satisfies the conditions set out in (9), then for any of the purposes for which the *asset valuation rules* apply, the *friendly society* must treat the conversion as having been made on the *relevant date*.

(9) The conditions referred to in (8) are that-

(a) either-

(i) the contract provides for the conversion into another currency of an amount representing the sale of an asset which has, on the *relevant date*, been sold but not delivered, or

(ii) the contract provides for the purchase of currency for the purpose of settling the purchase of an asset which has, on the *relevant date*, been purchased but not delivered;

(b) the conversion is to take place during a period which is-

(i) where the contract is in connection with the delivery of a *listed security* or a *security admitted to trading*, a period commencing on the date of the contract and extending for the usual period of settlement as laid down by the rules of the relevant stock exchange or *regulated market*; or

(ii) where the contract is in connection with the delivery of any other asset, a period commencing on the date of the contract and extending for twenty *working day*s thereafter; and

(c) the contract is *listed* or has been entered into with an *approved counterparty*.

(10) a *friendly society* must derecognise any *defined benefit asset*.

Shares in a related undertaking

3. (1) Where any *shares* are held by a *friendly society* in a *related undertaking*, which is a *regulated related undertaking* the value of the *shares* may be taken as, and in any event must not exceed, 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 paragraph 15(1)(a) to (c)), of the *surplus assets* of the *regulated related undertaking*.

(2) Where any *shares* are held by a *friendly society* in a *related undertaking* which is not a *regulated related undertaking,* 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 paragraph 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 a *regulated related undertaking*, and

(iii) by the amount by which the value of any *shares* held by the *related undertaking* in a *related undertaking* of the *friendly society* which is a *regulated related undertaking* 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*.

(3) The surplus assets of a *related undertaking* are its total assets excluding:

(a) the assets that are selected to cover liabilities and, in the case of a *related undertaking* which is a *regulated related undertaking*, to cover its regulatory requirement;

(b) the regulatory requirement of a *regulated related undertaking* is:

(i) in respect of an *insurance undertaking*, the *notional required minimum margin*;

(ii) in respect of a *regulated entity* with its head office in the *EEA* (excluding an *insurance undertaking*), the *solo capital resources requirement* calculated in accordance with the *sectoral rules* for the *financial sector* applicable to it;

(iii) in respect of a *regulated entity* not within (ii) (excluding an *insurance undertaking*), its *proxy capital resources requirement*;

(iv) in respect of *asset management company*, the *solo capital resources requirement* that would apply to it if, in connection with its activities, it were treated as an *investment firm* for the purposes of calculating the *solo capital resources requirement*;

(v) in respect of a *financial institution* (including a *financial holding company*) which is not a *regulated entity*, the *solo capital resources requirement* that would apply to it if, in connection with its activities, it were treated as being within the *banking sector*; and

(vi) in respect of an *insurance holding company*, zero.

(c) assets that are interests directly or indirectly held in the *related undertaking's* own capital (as defined in the *relevant regulatory requirements* for that undertaking);

(d) where the *related undertaking* carries on *long-term insurance business*, profit reserves and future profits;

(e) assets which represent either a *long-term insurance fund* or a fund the allocation of which as between *policy holders* and other purposes has yet to be determined;

(f) amounts due, or to become due, in respect of *share* capital, or other contributions from members of the *related undertaking*, subscribed or called for but not fully paid up; and

(g) assets that cannot effectively be made available or realised to meet losses (if any) arising in the *friendly society*, including assets that represent capital not owned, directly or indirectly, by the *friendly society*.

(4) The assets selected in (3)(a) to be excluded from the total assets:

(a) where the *related undertaking* is an *insurance undertaking*, must be identified and valued in accordance with *relevant regulatory requirements* as to the value, admissibility, nature, location or matching that apply to the assets available to cover its liabilities (determined under the *relevant regulatory requirements*) and the *notional required minimum margin*;

(b) where the *group undertaking* is a *regulated related undertaking* (excluding an *insurance undertaking*), must be identified and valued in accordance with the relevant *sectoral rules* applicable to the *regulated related undertaking* as to cover its liabilities and the applicable regulatory requirement identified in paragraph 3(3)(b);

(c) where the *group undertaking* is not a *regulated related undertaking*, must be of a value at least equal to the amount of its liabilities, determining that value and that amount in accordance with this Appendix (other than 15(1)(a) to (c)) and Appendix 5; and

(d) in all cases, must not include:

(i) assets falling within (3)(c), or

(ii) assets falling within (3)(f) where the amount is due, or to become due, from a *related undertaking*; but

(e) notwithstanding (a), (b) and (c), a liability of a *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*.

(5) For the purposes of (4), the *relevant regulatory requirements* must be treated as if paragraphs 15(1)(a) to (c) (or their equivalent in a *designated State or*

territory) do not apply for the purpose of valuing *shares* in *related undertakings* that are not *dependants*.

(6) For the purposes of this Appendix, any value attributed to any *shares* held directly or indirectly in a *related undertaking* which is an *ancillary insurance service undertaking*, an *ancillary investment services undertaking* or an *ancillary banking services undertaking*, calculated in accordance with paragraph 3, must be deducted from the assets of the *friendly society*.

Value of non capital interests in a group undertaking

4A (1) A *friendly society* must notify the *FSA* of:

(a) any *related undertaking* which:

(i) no *participation* is held in by another *related undertaking*; and

(ii) is not a *subsidiary undertaking*; but

(iii) is linked by a *consolidation Article 12(1) relationship* with another *related undertaking*; and

(b) the value of that *undertaking* calculated on the basis of paragraph 3.

(2) For the purposes of this Appendix, the *related undertaking* referred to in (1)(a)(iii)'s proportional share of the value of the *related undertaking* in (1)(a) is determined in accordance with Article 28(5) of the *Financial Groups Directive*.

Debts due or to become due from a related undertaking

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 held in respect of the *debt*.

Assets sold to or purchased from an approved credit institution or an approved investment firm subject to an agreement for resale or repurchase

5. (1) Where a *friendly society* has sold *securities* to or purchased *securities* from an *approved credit institution* or an *approved investment firm* and such sale or purchase was made subject to an agreement that the *approved credit institution* or *approved investment firm* would, either on demand by the *friendly society* or within six months of such sale or purchase, subsequently sell to or purchase

from the *friendly society equivalent securities*, then if at the *relevant date* such subsequent sale or purchase has not taken place and the conditions specified in (2) and either (3) or (4) (as appropriate) are satisfied, the *friendly society*-

(a) must value-

(i) *securities* sold by it under such agreement as if such *securities* had been retained by it, and

(ii) assets provided by it as consideration for the purchase of *securities* under such agreement as if such consideration had not been provided by it; and

(b) must not ascribe a value to-

(i) any consideration received for the sale of *securities* under such agreement (or any assets purchased by it with such consideration) up to the limit of the value of the *securities* sold, or

(ii) any *securities* purchased by it under such agreement (or any assets purchased with the proceeds of the sale of any such *securities*) up to the limit of the consideration (valued in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to *friendly societies*) provided by it.

(2) The condition specified in this paragraph is that, where at any time after the sale or purchase of *securities* by the *friendly society* under an agreement described in (1) either-

(a) the amount of the consideration received by the *friendly society* for the sale of the *securities* fell below the value of the *securities* sold by it; or

(b) the value of the *securities* purchased by the *friendly society* fell below the value of the consideration provided by it,

by more than 2.5% of the value of the *securities* sold or purchased (as the case may be), the *friendly society* demanded additional consideration whose amount was equal to the shortfall and such demand was complied with before the end of the *working day* next following the day on which such shortfall occurred.

(3) The conditions specified in this paragraph are that, if the *friendly society* purchases *securities* from an *approved credit institution* or an *approved investment firm* and the consideration provided by the *friendly society* is other than by way of sale of *securities*-

(a) the *securities* purchased are-

(i) *approved securities*,

(ii) *listed securities*, or

(iii) *securities* issued by an *approved credit institution*; and

(b) the *securities* purchased do not include-

(i) *securities* (other than *approved securities*) issued by the same *counterparty* whose aggregate value amounts to more than 15% of the value of the *securities* purchased, or

(ii) if the condition in (b)(i) is not satisfied, *securities* whose value when aggregated with the *friendly society*'s existing *exposure* to assets of the same description or to the same *counterparty* would exceed the appropriate *permitted asset exposure limit* or *permitted counterparty exposure limit* as determined in accordance with 15 and Annex B.

(4) The conditions specified in this paragraph are that, if the *friendly society* sells *securities* to an *approved credit institution* or an *approved investment firm*,-

(a) the consideration provided by the *approved credit institution* or *approved investment firm* is-

(i) cash,
(ii) *approved securities*,
(iii) *listed securities*,
(iv) *securities* issued by an *approved credit institution*,
(v) a charge over assets set out in (i) to (iv),
(vi) a letter of credit established with an *approved credit institution*, or
(vii) a guarantee provided by an *approved credit institution*; and

(b) the consideration does not include-

(i) except to the extent that the condition in (b)(ii) is satisfied, consideration whose amount when aggregated with the *friendly society*'s existing *exposure* to assets of the appropriate description or to the relevant *counterparty* would exceed the appropriate *permitted asset exposure limit* or *permitted counterparty exposure limit* as determined in accordance with 15 and Annex B, or

(ii) consideration of more than 15% of the aggregate amount of which takes the form of *securities* (other than *approved securities*) issued by, letters of credit established with, guarantees provided by, cash deposited with, a charge over cash deposited with or a charge over *securities* issued by, the same *counterparty*; and

(c) the consideration to be provided by the *friendly society* for the subsequent purchase of *equivalent securities* is-

(i) where the consideration for the original purchase by the *approved credit institution* or *approved investment firm* was (wholly or in part) cash, cash denominated in the same currency, and

(ii) where the consideration was (wholly or in part) *securities*, *securities* equivalent to the *securities* provided by way of consideration.

(5) For the purposes of this paragraph, where the *friendly society* has received consideration in respect of a sale of the kind described in (1), in addition to any other *exposure* to assets or to a *counterparty*-

(a) if such consideration takes the form of a letter of credit established with, or a guarantee provided by, an *approved credit institution*, it must be considered to give rise to *exposure* to that institution by the amount of the consideration;

(b) if such consideration takes the form of a charge over *securities*, it must be considered to give rise to *exposure* to *securities* of the same description and to the *issuer* of those *securities* by the amount of the consideration; and

(c) if such consideration takes the form of cash deposited with another party for the benefit of the *friendly society*, or a charge over cash deposited with another party, it must be considered to give rise to *exposure* to that party by the amount of the consideration.

(6) For the purposes of this paragraph, the amount of any consideration must be-

(a) where the consideration is a letter of credit established with an *approved credit institution*, the lower of the amount made available under the letter of credit and the value of the assets sold;

(b) where the consideration is a guarantee provided by an *approved credit institution*, the lower of the amount of the guarantee and the value of the assets sold;

(c) where the consideration takes the form of assets of any of the types mentioned in (4)(a)(i) to (iv), or a charge over such assets, the value of the assets as determined in accordance with the *asset valuation rules*; and

(d) where the consideration takes the form of a Talisman short term certificate, the value of the *securities* represented by that certificate.

(7) Where a *friendly society* has entered into a number of agreements described in (1), for the purposes of (3) and (4) of this paragraph-

(a) any or all agreements under which the subsequent sale or purchase has not taken place at the *relevant date* may be treated as one agreement; and

(b) in such case, the 15% limits referred to in (3)(b)(i) and (4)(b)(ii) must be calculated by reference to the aggregate of the value of the *securities* purchased under (3) and the amount of any consideration under (4).

Debts and other rights

6. (1) The value of any *debt* due, or to become due, to a *friendly society*, other than a *debt* to which 4, 11 or 13 applies or to which (2), (3), (4) or (6) of this rule applies, must be-

(a) in the case of a *debt* which is due, or will become due, within twelve months of the *relevant date* (including any *debt* which would become due within that period if the *friendly society* were to exercise any right to which it is entitled to require payment of the same), the amount which can reasonably be expected to be recovered in respect of that *debt*; and

(b) in the case of any other *debt*, the amount which would reasonably be paid by way of consideration for an immediate assignment of the *debt*,

in either case due account being taken of the terms and conditions for payment of the *debt* and, where the *debt* is secured, the nature and quality of the security.

(2) Any *debt* due, or to become due, to a *friendly society* under a letter of credit must be left out of account for the purposes for which the *asset valuation rules* apply.

(3) In the case of *long-term insurance business* carried on by a *friendly society*, the value of any *debt* due, or to become due, to the *friendly society* which is secured on a policy of insurance issued by the *friendly society* and which (together with any other *debt* secured on that policy) does not exceed the amount payable on a surrender of that policy at the *relevant date* must be the amount of that *debt*.

(4) Subject to (5), the value of any rights of the *friendly society* under a contract of reinsurance to which it is a party must be the amount which can reasonably be expected to be recovered in respect of those rights.

(5) (4) does not apply to-

(a) rights under a contract of reinsurance in respect of *long-term insurance business* except to the extent that *debt*s are due under such contracts; or

(b) *debts* to which 4 applies which are due or are to become due.

(6) Any *debt* due, or to become due, to a *friendly society*-

(a) from an *intermediary* in respect of money advanced on account of commission to which that *intermediary* is not absolutely entitled at the *relevant date*; or

(b) which is a *debt* owed in respect of *premiums* (due account being taken of rebates, refunds and commissions payable) which is recorded in the *friendly society*'s accounting records as due and payable and has been outstanding for more than three months,

must be left out of account for the purposes of the *asset valuation rules* .

(7) The value of any right to recover assets transferred by way of *initial margin* in respect of a *derivative contract* or a contract or asset having the effect of a *derivative contract* must be determined-

(a) where the *initial margin* was a payment in cash, as if there were a *debt* owed to the *friendly society* for that amount; and

(b) where the *initial margin* took the form of a transfer of *securities*, as if there were a *debt* owed to the *friendly society* of an amount equal to the value of such *securities* as determined in accordance with the *asset valuation rules*.

(8) The value of any rights arising under a *derivative contract* to which 13 does not apply, or under a contract or asset having the effect of such a contract, must be the value of any right to recover assets transferred by way of *initial margin* together with the value of any other unconditional right to receive a specified amount.

(9) This rule must not apply to any rights (other than *debts* due) in respect of-

(a) investments in *related undertakings;*

(b) *securities* or beneficial interests in a limited partnership;

(c) units or other beneficial interests in a *collective investment scheme*;

(d) a *derivative contract*, except as provided under (7) or (8); or

(e) a contract or asset which has the effect of a *derivative contract* except as provided under (7) or (8) or under 14(4) or (5).

Land

7. (1) The value of any land of a *friendly society* (other than land held by the *friendly society* as security for a *debt* or to which (2) or 12 applies) must be not greater than the amount which (after deduction of the reasonable expenses of sale) would be realised if the land were sold at a price equal to the most recent *proper valuation* of that land which has been provided to the *friendly society* and any such land of which there is no *proper valuation* must be left out of account for the purposes for which the *asset valuation rules* apply.

(2) The value of any interest in land which is determinable upon the death of any person or upon the happening of some other future event or at some future time must be the amount which would reasonably be paid by way of consideration for an immediate transfer thereof.

Equipment

8. (1) The value of any computer equipment of a *friendly society*-

(a) in the *financial year* of the *friendly society* in which it is purchased, must not be greater than three-quarters of the cost thereof to the *friendly society*;

(b) in the first *financial year* thereafter, must not be greater than one-half of that cost;

(c) in the second *financial year* thereafter, must be not greater than one-quarter of that cost; and

(d) in any subsequent *financial year*, must be left out of account for the purposes for which the *asset valuation rules* apply.

(2) The value of any office machinery (other than computer equipment), furniture, motor vehicles and other equipment of a *friendly society*, must be, in the *financial year* of the *friendly society* in which it is purchased, not greater than one-half of the cost thereof and must be, in any subsequent *financial year*, left out of account for the purposes for which the *asset valuation rules* apply.

Securities and beneficial interests in limited partnerships

9. (1) Subject to (2), this paragraph applies to the valuation of investments comprising *securities* and beneficial interests in limited partnerships and, for the purposes of (6), investments includes loans.

(2) This paragraph does not apply to the valuation of *securities* which are-

(a) *derivative contracts*;

(b) [deleted]

(c) units or other beneficial interests in *collective investment schemes*, except as provided in 10(2); or

(d) contracts or assets having the effect of *derivative contracts*, except as provided in 14(4).

(3) Subject to (6), the value of an investment to which this rule applies must be-

(a) where the investment is transferable and (4) does not apply, the *market value*;

(b) where the investment is transferable and (4) applies, the lower of-

(i) the *market value*, and

(ii) the amount which would reasonably be expected to be received by way of consideration for an assignment or transfer of the investment at a date not later than twelve months after the *relevant date*, it being assumed that negotiations for the assignment or transfer commenced on the *relevant date* and the assignment or transfer was made other than to the *issuer* or to an *associate* or an *associate company* of the *issuer* or of the *friendly society*; or

(c) where the investment is not transferable-

(i) the amount payable on redemption on the *relevant date* or the most recent date before the *relevant date* on which the *issuer* of the investment could have been required to redeem the investment, or

(ii) where the investment cannot be redeemed, the amount which would reasonably be paid by way of compensation for the surrender of the interest in the investment.

(4) Subject to (5), this paragraph applies where it is not reasonable to assume that, had negotiations for the assignment or transfer of the investment commenced not more than seven *working days* before the *relevant date*, the investment could have been assigned or transferred on the *relevant date* for an amount not less than 97.5% of the *market value* other than to the *issuer* or to an *associate* or an *associate company* of the *issuer* or of the *friendly society*.

(5) (4) must be taken not to apply if it applies by reason only that-

(a) the *listing* or *admission to trading* of the investment has been temporarily suspended following receipt of price sensitive information by the stock exchange on which the investment is *listed*, or *admitted to trading* or the *regulated market* on which facilities for dealing have been granted; or

(b) the extent of the holding would prevent an orderly disposal of the investment for an amount equal to or greater than 97.5% of the *market value*.

(6) Where a *friendly society* has made more than one *unlisted* investment (other than a number of investments exclusively comprising loans) and the value of such investments when taken together is greater than the aggregate of the values of each investment valued separately, then such higher value may be ascribed to the investments if it is reasonable to assume that none of the investments would be assigned or transferred separately.

Beneficial interests in collective investments schemes

10. (1) Subject to (3), this rule applies to holdings of units, or other beneficial interests in-

(a) a scheme falling within the *UCITS Directive*;

(b) an authorised unit trust scheme or a recognised scheme within the meaning of the *Act* (not falling within (a)); or

(c) any other *collective investment scheme* where-

(i) the scheme does not employ *derivative contracts* unless they are contracts to which 13 applies,

(ii) the scheme does not employ contracts or assets having the effect of *derivative contracts* unless they have the effect of *derivative contracts* to which 13 applies, and

(iii) the property of the scheme does not include assets other than those for the valuation of which provision is made in the *asset valuation rules*.

(2) The value of units or other beneficial interests in a *collective investment scheme* to which this rule applies must be-

(a) where the *issuer* can be required to purchase the units or other beneficial interests from the holder upon the holder giving notice of one month or less, the price at which the *issuer* would have purchased the units or other beneficial interests on the *relevant date* or the most recent date before the *relevant date* on which it could have been required to make such a purchase; or

(b) where the *issuer* cannot be required to purchase the units or other beneficial interests as set out in (a), a value determined in accordance with 9.

(3) Other than as provided in 14(4), this rule must not apply to units or other beneficial interests in a *collective investment scheme* which has the effect of a *derivative contract.*

Deferred acquisition costs

11. In the case of *general insurance business*, the value of *deferred acquisition costs* must be the value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to *friendly societies*.

Reversionary interests etc.

12. The value of any *long-term insurance business asset* of a *friendly society* consisting of an interest in property which is a remainder, reversionary interest, right of fee subject to a life rent or other future interest, whether vested or contingent must be the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment of it.

Derivative contracts

13. (1) The value of rights (other than rights to recover assets transferred by way of *initial margin*) under a *derivative contract* to which this rule applies must be-

(a) in the case of a *listed derivative contract*, the *market value*; and

(b) in the case of an *unlisted derivative contract*, the amount which would reasonably be paid by way of consideration for closing out that contract,

in either case taking into account the *market value* of any assets which, at the *relevant date*, have been transferred by way of *variation margin*.

(2) This rule applies to an *approved derivative contract* which is covered and-

(a) which is held in connection with a contract or asset of the type described in (3) for the purposes of reduction of investment risks or efficient portfolio management; or

(b) which has effect as if so held for such purposes.

(3) The contract or asset described in this paragraph must be either-

(a) an *approved derivative contract* or a contract or asset having the effect of an *approved derivative contract* which, when taken together with the *approved derivative contract* the rights under which are being valued in accordance with this rule, would have the effect that the *friendly society* either holds an asset for the valuation of which provision is made in this chapter or holds an *approved derivative contract* in connection with such an asset; or

(b) an asset for the valuation of which provision is made in this chapter, being neither a *derivative contract* nor a contract or asset having the effect of a *derivative contract*.

(4) For the purposes of this rule an *approved derivative contract* is covered if it does not require a significant provision to be made in respect of it pursuant to 3 of Appendix 5.

(5) For the purposes of determining in accordance with (4) whether a required provision is significant, regard must be had to the obligations of the *friendly society* under the contract and the volatility of the assets identified by the *friendly society* as being suitable to cover such obligations, and the required provision in respect of any one *derivative contract* must be deemed to be significant if-

(a) the aggregate provision required in respect of all contracts having a similar effect is significant; or

(b) the aggregate provision required in respect of all contracts with which it is connected is significant.

(6) In this rule, an 'approved derivative contract' is a *derivative contract* entered into by a *directive friendly society* which-

(a) either is *listed* or has been entered into with an *approved counterparty*;

(b) the *friendly society* reasonably believes may be readily closed out; and

(c) is either a *contract for differences* to which (7) applies or a *futures contract* or an *option* to either of which (8) applies.

(7) This paragraph applies to-

(a) a *contract for differences* under which the amount payable by either party is calculated solely by reference to fluctuations in any of the following-

(i) the value of an asset for the valuation of which provision is made in this chapter,

(ii) the amount of income from such an asset over a defined period,

(iii) an index of such assets, being an index in respect of which a *derivative contract* is *listed*, or

(iv) a national index of retail prices published by or under the authority of a government of a State belonging to Zone A as defined in Council Directive 89/647/EEC of 18 December 1989 on a solvency ratio for credit institutions,

or an arithmetic average thereof; and

(b) a contract under which the amount payable by either party is calculated by reference to the difference between the *market value* and the amortised value of any asset for the valuation of which provision is made in this Appendix.

(8) This paragraph applies to a *futures contract* or an *option* which in either case provides for the acquisition or disposal of assets for the valuation of all of which provision is made in this Appendix at a price which is determined by one or more of the following methods-

(a) for each date on which the contract may be completed or the *option* exercised, the price is a fixed amount under the terms of the contract or *option*;

(b) it is determined by reference to the *market value* or the amortised value of an asset for the valuation of which provision is made in this chapter or the amount of income over a defined period from such an asset;

(c) it is determined by reference to an index of the kind mentioned in (7)(a)(iii) or (iv).

Contracts and assets having the effect of derivatives

14. (1) Subject to (3), for the purposes of this Appendix, a contract has the effect of a *derivative contract* if it is a contract (other than a *derivative contract*) which provides whether upon the exercise of a right by the *friendly society* or otherwise-

(a) for payment (at any time) of amounts which are determined by fluctuations in-

(i) the value of property of any description,

(ii) an index of the value of property of any description,

(iii) income from property of any description, or

(iv) an index of income from property of any description;

(b) for delivery of an asset (other than an asset for the valuation of which provision is made in 8) to or by the *friendly society*; or

(c) for the conversion of an asset held by the *friendly society* or another party to-

(i) an asset of a different type, or

(ii) a different asset of the same type.

(2) Subject to (3), for the purposes of this Appendix an asset has the effect of a *derivative contract* if the asset is an asset (other than an *approved security* or an asset falling within 10(1)(a)) and the holding of the *asset* confers contractual rights or imposes contractual obligations to make or accept payment, delivery or conversion as set out in (1)(a) to (c).

(3) A contract or asset does not have the effect of a *derivative contract* by reason only that-

(a) it provides for the unconditional delivery of assets, or for the payment for unconditional delivery of assets, such delivery or payment to be made within a period not exceeding the period commencing at the date of the contract and extending-

(i) in the case of a *listed security* or a *security admitted to trading*, for the usual period for delivery or payment as determined by the rules of the stock exchange or *regulated market* on which the *securities* are *listed* or *admitted to trading*, or facilities for dealing have been granted, or

(ii) in any other case, for twenty *working day*s;

(b) it is a contract of the type described in 2(8) in respect of which the conditions set out in 2(9) have been satisfied; or

(c) it is a transaction to which 5(1) applies.

(4) Rights in respect of a contract or asset whose effect is that of a *derivative contract* to which 13 applies must-

(a) where the asset is a security, be valued in accordance with 9;

(b) where the asset comprises units or other beneficial interests in a *collective investment scheme*, be valued in accordance with 10; and

(c) where the asset is a *debt* or other right, be valued in accordance with 6.

(5) Rights in respect of a contract or asset whose effect is that of a *derivative contract* to which 13 does not apply must have a value determined in accordance with 6(8).

(6) For the purposes of determining whether a contract or asset has the effect of a *derivative contract* to which 13 applies, it must be deemed to have the effect of a *derivative contract* which is *listed* or transacted with an *approved counterparty* if it is itself *listed* or so transacted.

Assets to be taken into account only to a specified extent

15. (1) Subject to (2) to (6), the aggregate value of the assets of a *non-directive incorporated friendly society* as determined in accordance with the *asset valuation rules* must, for any of the purposes for which the *asset valuation rules* apply, be reduced by an amount representing the aggregate of-

(a) the amount by which the society is exposed to assets of any description in excess of the *permitted asset exposure limit* for assets of that description;

(b) the amount by which the society is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* for such *counterparty*;

(c) the amount by which the society has an *excess concentration with a number of counterparties*;

(d) the value of any assets transferred to or for the benefit of the society in pursuance of a condition in a *derivative contract* to which 13 does not apply or a related contract; and

(e) the value of any assets transferred to or for the benefit of the society in pursuance of a contract whose effect is that of a *derivative contract* to which 13 does not apply or a related contract,

as determined in accordance with Annex B.

(2) Where a *non-directive incorporated friendly society* is exposed to assets of any description in excess of the *permitted asset exposure limit* for such assets, the reduction required to be made by (1)(a) must be made-

(a) by deducting (as far as possible) the amount of the excess from the assets of that description held by the society; and

(b) where the society does not hold sufficient assets of that description to eliminate the excess (or does not hold any assets of that description) by making an appropriate deduction from the aggregate value of the assets which the society would otherwise be permitted to take into account for any of the purposes for which the *asset valuation rules* apply.

(3) Where a society is required to make a reduction in accordance with (1)(b), (c), (d) or (e), the reduction must be made by making a deduction from the aggregate value of the assets which the society would otherwise be permitted to take into account for any of the purposes for which the *asset valuation rules* apply.

(4) Where a *non-directive incorporated friendly society* carrying on *long-term insurance business* has attributed assets partly to a *long-term insurance business* fund and partly to its other assets, any reduction required to be made by this rule must be made in the same proportion as the attribution.

(5) Assets of a *friendly society* comprising-

(a) *approved securities* or any interest accrued thereon;

(b) *debts* to which 6(3) applies;

(c) rights to which 6(4) applies;

(d) *debts* in respect of *premiums*;

(e) moneys due from, or guaranteed by, the government of any State which belongs to Zone A as defined in Council Directive 89/647/EEC of 18 December 1989 on a solvency ratio for credit institutions;

(f) *shares* in or *debts due or to become due* from a *dependant* falling within 3;

(g) holdings in a scheme falling within the *UCITS Directive*; or

(h) *deferred acquisition costs*,

must not be taken into account in any of the calculations described in (1).

(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).

(6) Where a *friendly society* has entered into any contracts providing for the payment of *index linked benefits*, the provisions of (1)(a) must not apply to assets of that *friendly society* to the extent that they are held to match liabilities in respect of such benefits.

ASSETS TO BE TAKEN INTO ACCOUNT ONLY TO A SPECIFIED EXTENT

PART I: the method of calculation of excess exposure

Calculation of exposure to assets

B4. A value must be ascribed to assets of each description which must be an amount determined in accordance with the *asset valuation rules* or, where the assets are of a description for the valuation of which no provision is made in those rules, an amount which would reasonably be paid by way of consideration for an immediate assignment or transfer of such assets. The amount by which the *friendly society* is exposed to assets of each description must be determined by adjusting the value of the assets in accordance with B5 to B11A.

Adjustments in respect of futures contracts

B5. The value ascribed under B4 in respect of assets of each description must be increased or decreased by the value of assets of that description which the *friendly society* is deemed to have acquired or disposed of pursuant to a *futures contract*.

B6. For the purposes of B5, the *friendly society* must be deemed to have acquired or disposed of assets pursuant to a *futures contract* if, at the *relevant date*, it has entered into (and not closed out) a *futures contract* which-

(a) provides for the acquisition of assets by the *friendly society*;

(b) is *listed* and provides for the disposal of assets by the *friendly society*; or

(c) is not *listed* but provides for the disposal of assets by the *friendly society* to an *approved counterparty* and it is prudent to assume that such disposal will take place within one year of the *relevant date*.

Adjustments in respect of options

B7. The figure arrived at under B4 to B6 in respect of assets of each description must be increased or decreased by the value of assets of that description which the *friendly society* is deemed to have acquired or disposed of pursuant to an *option*.

B8. For the purposes of B7, the *friendly society* must be deemed to have acquired or disposed of assets pursuant to an *option* if, at the *relevant date*, it is a party to an *option* and it is prudent to assume that the *option* will be exercised and the *option* is one which-

(a) provides for the acquisition of assets by the *friendly society*;

(b) is *listed* and provides for the disposal of assets by the *friendly society*; or

(c) is not *listed* but provides for the disposal of assets by the *friendly society* to an *approved counterparty* and it is prudent to assume that such disposal will take place within one year of the *relevant date*.

Adjustments in respect of initial margins

B9. The figure arrived at under B4 to B8 in respect of assets of each description must be increased by an amount representing the value of any assets of that description which have been transferred by the *friendly society* by way of *initial margin*.

Adjustments in respect of an undiversified contract for differences or a contract or asset having the effect of a derivative contract

B10. The amount arrived at in accordance with B4 to B9 must be increased or decreased by an amount representing the value of assets which the *friendly society* is deemed to have acquired or disposed of under-

(a) an *undiversified contract for differences*; or

(b) a contract or asset other than a *diversified contract for differences* which has the effect of a *derivative contract*.

B11. For the purposes of B10, the *friendly society* must be deemed to have achieved the effect of such contract by entering into appropriate *futures contract*s or *options*. The assets deemed to be acquired or disposed of must be dealt with in accordance with the provisions in B5 and B7 respectively.

Adjustment in respect of subsidiary undertakings

B11A. Subject to B11B and B11C, 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.

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*).

Excess asset exposure

B12. The amount by which the *friendly society* is exposed to assets of a particular description in excess of the *permitted asset exposure limit* must be calculated by subtracting the *permitted asset exposure limit* for assets of that description from the corresponding amount of the *exposure*, calculated in accordance with B4 to B11A. For this purpose, *exposure* to assets must be excluded to the extent that such *exposure* has caused the recognition of excess *exposure* to assets of a different description. If the figure arrived at is negative, it must be taken to be zero.

Calculation of exposure to a counterparty

B13. Subject to B14 to B15A, the value of all investments (determined in accordance with 9 of Appendix 4) issued by any one *counterparty* and the value of all rights (determined in accordance with 6, 13 and 14 of Appendix 4) against that *counterparty*, in each case up to the amount of the appropriate *permitted asset exposure limit*, must be aggregated. Where the *counterparty* is an *issuer* of a *collective investment scheme* falling within 10(1)(c) of Appendix 4, the value of units or other beneficial interest in the *collective investment scheme* must be included.

B14. Where a *friendly society* has rights in respect of an obligation to be fulfilled by a *counterparty* and-

(a) the obligation is a secured obligation which-

(i) is secured by cash deposited with, or a letter of credit established with, or *securities* issued by, or a guarantee provided by, an *approved credit institution* or an *approved financial institution*; and

(ii) is due to be fulfilled within 12 months of the *relevant date*; or

(b) the obligation is a secured obligation which is secured by *listed securities* which are *readily realisable* or by *approved securities* which in either case-

(i) have been deposited with an *approved credit institution*, an *approved financial institution* or an *approved investment firm*; and

(ii) are beneficially owned by the *counterparty* but will not be available for the benefit of creditors generally in the event of the winding-up of the *counterparty*,

the aggregation required by B13 need not include the value of such rights.

B15. If the *friendly society* has liabilities to the *counterparty* which may be offset against the above mentioned assets in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate for *friendly societies*, then such liabilities may be offset for the purposes of the aggregation required by B13.

B15A. Subject to B15B, 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 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*).

Excess counterparty exposure

B16. The amount by which the *friendly society* is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* must be calculated by subtracting from the amount of the *exposure* to such *counterparty* the amount of the *permitted counterparty exposure limit* for such *counterparty*. If the figure arrived at is negative, it must be taken to be zero. If the *friendly society* is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* in more than one of the circumstances set out in (c) of the definition of *permitted counterparty exposure limit*, it must make the deduction required under 15(1)(b) of Appendix 4 only in respect of the circumstances leading to the greatest excess *exposure*.

Excess concentration with a number of counterparties

B17. Where there is *exposure* to a *counterparty* of the type mentioned in (c)(ii) of the definition of *permitted counterparty exposure limit*, 40% of the *business amount* must be deducted from the aggregate of such *exposures*. The amount so arrived at is the excess concentration with a number of counterparties. Where this amount is negative, it must be taken to be zero. For the purposes of this paragraph-

(a) *exposure* to a *counterparty* must be taken into account only up to the level of the *permitted counterparty exposure limit* for that *counterparty*;

(b) *exposure* to a *counterparty* must not be taken into account if it does not exceed 5% of the *business amount*; and

(c) *exposure* to a *counterparty* must not be taken into account if the corresponding *permitted counterparty exposure limit* does not exceed 5% of the *business amount*.

Part II: description of asset and corresponding business amount

B18.	A piece of land or a number of pieces of land (or one or more interests in such pieces of land) to which in the most recent *proper valuation* of such pieces of land an aggregate value is ascribed which is greater than the aggregate of the value of each of such pieces of land or interests valued separately.	5%
B19.	A reversionary interest or a remainder not falling within B18.	1%

B20.	All *debts due or to become due* from any one individual (other than a *connected individual* of the *friendly society*), being *debt*s which are fully secured on any dwelling or any land appurtenant (or in Scotland, appertaining) thereto owned or to be purchased by the individual and used or to be used by him for his own residence.	1%
B21.	All *debts due or to become due* from any one individual, other than *debt*s specified in B20.	0.25%
B22.	All unsecured *debts* (other than *debt*s arising under the terms of *debt securities* or *debt*s from a *regulated institution*) *due or to become due* from any one *counterparty* other than an individual, body corporate or group.	1%
B23.	All unsecured *debts* (other than *debt*s arising under the terms of *debt securities* or *debt*s from a *regulated institution) due or to become due* from any one *company*, taken together with all such *debts due or to become due* from a connected company of that *company*.	1%
B24.	All unsecured *debts* (other than *debt*s arising under the terms of *debt securities* or *debt*s from an *approved counterparty*) *due or to become due* from any one *regulated institution*, taken together with (where that institution is a *company*) all such *debts due or to become due* from a connected company of that institution.	2.5%
B25.	All *debts*, other than *debts* arising under the terms of *debt securities, due or to become due* from any one *counterparty* which is not an *approved counterparty* taken together with all such *debts due or to become due* from any connected company (other than an *approved counterparty*) of that *counterparty*.	5%
B26.	All *debts*, other than short-term deposits with an *approved credit institution* or *debt*s arising under the terms of *debt securities, due or to become due* from any one *approved counterparty*, taken together with all such *debts due or to become due* from any connected company of that *approved counterparty*.	10%
B27.	All *debts due or to become due* from an *approved credit institution* (or a *connected company* of that institution) taken together unless – (a) the *friendly society* has notified the *FSA* that it places deposits with that institution; and (b) the total amount of *debts due or to become due* does not exceed £2 million.	20%
B28.	The aggregate of *debts* of the descriptions in B21, B22 and B23.	5%

B29. All investments of a kind which may be valued in accordance with 9 of Appendix 4 (other than secured *debt securities*, *debt securities* issued by a *regulated institution* or investments which are *listed* and *readily realisable*) issued by any one *issuer* taken together with- 1%

(a) all units or other beneficial interests in a *collective investment scheme* failing within 10(1)(c) of Appendix 4 issued by that *issuer*; and with

(b) all investments of the kinds mentioned in this paragraph issued by a *connected company* of that *issuer*.

B30. The aggregate of assets of any of the descriptions in B19 and B29. 10%

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*.[10] 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 *asset valuation 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*

[10] The amendment to paragraph B31 comes into force on 31 December 2002

society's net assets outside the *friendly society's long-term insurance business* fund.

B32.	All *securities* issued by any one *issuer* which is not an *approved counterparty* taken together with (where that *issuer* is a *company*) all *securities* issued by a *connected company*, other than an *approved counterparty*, of that *issuer*.	5%
B33.	All *securities* issued by any one *counterparty*.	10%
B34.	All holdings in any one authorised unit trust scheme or recognised scheme.	5%
B35.	All cash.	3%
B36.	All computer equipment.	5%
B37.	All office machinery (other than computer equipment) taken together with all furniture, motor vehicles and other equipment.	2.5%

Appendix 5

LIABILITY VALUATION RULES

Application

1. This Appendix (the 'liability valuation rules') applies with respect to the determination of the amount of liabilities of a *friendly society* for the purposes of chapters 4 and 5.

Long-term and general insurance business

2. (1) Subject to the provisions below, the amount of liabilities of a *friendly society* in respect of *long-term insurance business* and *general insurance business* and other lawful activities must be determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate for *insurance business*.

(2) In determining under (1) the amount of liabilities of a *friendly society*, all contingent and prospective liabilities must be taken into account.

(3) A *friendly society* may substitute for a *defined benefit liability* its *deficit reduction amount.*

Provision for adverse changes

3. (1) A *friendly society* which has or may have (following the exercise of any right by the *friendly society* or any other party) an obligation to which this rule applies to deliver assets or make a payment must-

(a) at all times identify the assets held by it which it considers to be the most suitable to cover such obligation; and

(b) make prudent provision for the effect on the amount of its excess assets of adverse variations between the value of the assets identified and the value of the assets which it is or may be obliged to deliver or the amount of the payment which it is or may be obliged to make.

(2) For the purposes of (1) the *friendly society* must take into account all reasonably foreseeable adverse variations and must have particular regard to past volatility in the value of the assets concerned (or assets of a similar nature) and the possibility of adverse changes in such volatility in the future.

(3) For the purposes of this rule "the amount of its excess assets" means the difference between the aggregate value of its assets (other than *linked* assets to the extent that they are held to match *property linked liabilities*) determined in accordance with Appendix 4 and the amount of its liabilities (other than *property linked liabilities* or liabilities for which provision is made in accordance with this rule).

(4) Subject to (5), this rule applies to an obligation-

(a) under a contract relating to investments of the kinds mentioned in item B under the heading "Assets" in Part I of Schedule 2 to *Accounts*

Regulations (whether such contract constitutes an asset or liability of the *friendly society*);

(b) undertaken for the purposes of, or in connection with the making of, investments of the kind mentioned in (a); or

(c) under a contract providing for the purchase, sale or exchange of currency.

(5) This rule does not apply to a contract to the extent that it relates to, or is for the purposes of the making of an investment in, or is in connection with the making of an investment in, a building which is to be occupied by the *friendly society* and used by the *friendly society* for the conduct of its business.

Provision for related undertakings

3A (1) Except to the extent that provision for the deficit has been made (whether in the calculation of *surplus assets* or otherwise) in another *related undertaking* the value of whose *shares* is taken to be the value of its *surplus assets* under paragraph 3(1) or (2) of Appendix 4 (but only to the extent of the *friendly society's proportional share* of that *undertaking*), a *friendly society* must make provision in respect of a *related undertaking* that is a *regulated related undertaking*:

(a) where the *related undertaking* is also a *subsidiary undertaking* of the *friendly society*, for the whole of any *solvency deficit*; and

(b) in any other case, for the *friendly society's proportional share* of any such deficit.

(2) For the purposes of (1), the identification and valuation of assets of *regulated related undertaking* available to cover liabilities and the regulatory requirement, set out in paragraph 3(3)(b) of Appendix 4 must be determined in accordance with paragraph 3(4) of Appendix 4.

General insurance business liabilities

4. The amount of *insurance liabilities* which are *general insurance business liabilities* must be determined in accordance with the regulations set out in Part VI of Schedule 6 to the *Accounts Regulations*.

Long-term insurance business liabilities

5. (1) The determination of the amount of *long-term liabilities* (other than liabilities which have fallen due for payment before the *valuation date*) must be made on actuarial principles which must have due regard to the reasonable expectations of *policyholders* and must make proper provision for all liabilities on prudent assumptions that must include appropriate margins for adverse deviation of the relevant factors.

(2) The determination must take account of all prospective liabilities as determined by the policy conditions for each existing contract, taking credit for *premiums* payable after the *valuation date*.

(3) Without prejudice to the generality of (1), the amount of the *long-term liabilities* must be determined in compliance with each of 6 to 16 and must take account, inter alia, the following factors:

(a) all guaranteed benefits, including guaranteed surrender values;

(b) vested, declared or allotted bonuses to which *policyholder*s are already either collectively or individually contractually entitled;

(c) all options available to the *policyholder* under the terms of the contract;

(cc) discretionary charges and deductions, in so far as they do not exceed the reasonable expectations of *policyholders*;

(d) expenses, including commissions; and

(e) any rights under contracts of reinsurance in respect of *long-term insurance business*.

Method of calculation

6. (1) Subject to (2), (3) and (4), the amount of the *long-term liability* must be determined separately for each contract by a prospective calculation.

(2) A retrospective calculation may be applied to determine the liabilities where a prospective method cannot be applied to a particular type of contract or benefit, or where it can be demonstrated that the resulting amount of liabilities would be no lower than would be required by a prudent prospective calculation.

(3) Appropriate approximations or generalisations may be made where they are likely to provide the same, or a higher, result than individual calculations of the same amount of the liabilities in respect of each contract.

(4) Where necessary, additional amounts must be set aside on an aggregated basis for general risks which are not individualised.

(5) The method of calculation of the amount of the liabilities and the assumptions used must not be subject to discontinuities from year to year arising from arbitrary changes and must be such as to recognise the distribution of profits in an appropriate way over the duration of each policy.

(6) The liabilities for contracts under which the *policyholder* is eligible to participate in any *established surplus* must have regard to the level of the *premiums* under the contracts, to the assets held in respect of those liabilities, and to the custom and practice of the *friendly society* in the manner and timing of the distribution of profits or the granting of discretionary additions, as the case may be.

(7) In this paragraph 'established surplus' means an excess of assets representing the whole or a particular part of the fund or funds maintained by the *friendly society* in respect of its *long-term insurance business* over the liabilities, or a particular part of the liabilities, of the *friendly society* attributable to that business as shown by an investigation to which rule 5.1 or 5.2 applies.

Avoidance of future valuation strain

7. The amount of the liability determined in respect of a group of contracts must not be less than such amount as, if the assumptions adopted for the valuation were to remain unaltered and were fulfilled in practice, would enable liabilities similarly determined at all times in the future to be covered from resources arising solely from the contracts and the assets covering the amount of the liability determined at the current valuation.

Valuation of future premiums

8. (1) Where further specified *premiums* are payable by the *policyholder* under a contract (not being a *linked long-term contract*) under which the *policyholder* is eligible to participate in any *established surplus* and benefits (other than benefits arising from a distribution of surplus) are determined from the outset in relation to the total *premiums* payable thereunder, then, subject to (4) and 9 -

(a) where the *premiums* under the contract are at a uniform rate throughout the period for which they are payable, the *premiums* to be valued must not be greater than such level *premiums* as, if payable for the same period as the actual *premiums* under the contract and calculated according to the rates of interest and rates of mortality or disability which are to be employed in calculating the liability under the contract, would have been sufficient at the outset to provide for the benefits under the contract according to the contingencies upon which they are payable, exclusive of any additions for profits, expenses or other charges;

(b) where the *premiums* under the contract are not at a uniform rate throughout the period for which they are payable, the *premiums* to be valued must not be greater than such *premiums* as would be determined on the principles set out in (a) modified as appropriate to take account of the variations in the *premiums* payable by the *policyholder* in each year,

save that a *premium* to be valued must in no year be greater than the amount of the *premium* payable by the *policyholder*.

(2) Where the terms of the contract have changed since the contract was first made (the terms of the contract being taken to change for the purposes of this paragraph if the change is indicated in an endorsement on the policy but not if a new policy is issued), then, for the purposes of (1) one of the following assumptions must be made, namely that-

(a) the change from the date it occurred was provided for in the contract when it was made;

(b) the terms of the contract are those which apply from the date of the change except that a single *premium* is payable, at the date of the change, of an amount equal to the liability under the policy immediately before the change, calculated on a basis consistent with the *liability valuation rules* and with the *premiums* actually payable from the date of the change; or

(c) the contract is in two parts, the first of which is for the benefits purchased by the actual *premiums* payable from the date of the change under the *friendly society's* scales of *premiums* at that date, and the second of which is for all other benefits under the policy for which no *premiums* are payable after that date

(3) Where under a contract (not being a *linked long-term contract*) the *policyholder* is eligible to participate in any *established surplus*, and

(a) each *premium* paid increases the benefits (other than benefits arising from a distribution of surplus) provided under the contract; or

(b) the amount of a *premium* payable in future is not determinable until it comes to be paid,

future *premiums* and the corresponding liability may be left out of account so long as adequate provision is made against any risk that the increase in the liabilities of the *friendly society* resulting from the payment of future *premiums* might exceed the amount of the *premiums*.

(4) An alternative valuation method to that described in (1) to (3) may be used where it can be demonstrated that the alternative method results in reserves no less, in aggregate, that would result from use of the method described in (1) to (3).

Acquisition expenses

9. (1) In order to take account of acquisition expenses, the maximum annual *premium* to be valued under 8 may (subject to (2)) be increased by an amount not greater than the equivalent, taken over the whole period of *premium* payments and calculated according to the rates of interest and rates of mortality or disability employed in valuing the contract, of 3.5% (or the defined percentage, if it is lower than 3.5%) of the *relevant capital sum* under the contract.

(2) For the purposes of (1) "the defined percentage" is the percentage arrived at by taking (for all contracts of the same type as the contract in question for which an adjustment is made) the average of the percentages of the *relevant capital sum* under each such contract that represent the acquisition costs incurred which, after allowing for the effects of taxation, might reasonably be recovered from the *premiums* payable under the contract.

(3) The increase permitted by (1) must be subject to the limitation that the amount of a future *premium* valued must not in any event be greater than the amount of the *premium* actually payable by the *policyholder*.

Rates of interest

10. (1) The rates of interest to be used in calculating the present value of future payments by or to a *friendly society* must be no greater than the rates of interest determined from a prudent assessment of the yields on existing assets attributed to the *long-term insurance business* and, to the extent appropriate, the yields which it is expected will be obtained on sums to be invested in the future.

(2) For the purposes of (1), the assumed yield on an asset attributed to the *long-term insurance business*, before any adjustment to take account of the effect of taxation, must not exceed the yield on that asset calculated in accordance with (3) to (7), reduced by 2.5% of that yield.

(3) For the purpose of calculating the yield on an asset-

(a) the asset must be valued in accordance with the *asset valuation rules*, excluding any provision under which assets may be taken at lower book values for the purposes of an investigation to which rule 5.1 or rule 5.2 applies; and

(b) the future income from the asset required to be taken into account (whether interest, dividends or repayment of capital) must be reduced by a proportion corresponding to such part of any excess *exposure* to assets of that description, calculated in accordance with B11 of Annex B to Appendix 4, as may reasonably be attributed to such assets.

(4) For *fixed interest securities* the yield on an asset, subject to (7), must be that annual rate of interest which, if used to calculate the present value of future payments of interest before the deduction of tax and the present value of repayments of capital, would result in the sum of those amounts being equal to the value of the asset.

(5) For variable interest investments (that is to say, investments which are not *fixed interest securities*) that are equity *share*s other than those within (5A) or land, the yield on an asset, subject to (7), must be the ratio to the value of the asset of the income before deduction of tax which would be received in the period of twelve months following the *valuation date* on the assumption that the asset will be held throughout that period and that the factors which affect income will remain unchanged, so however that account must be taken of any changes in those factors known to have occurred by the *valuation date* and in particular, without prejudice to the generality of the foregoing, of-

(a) any known changes in the rental income from property or in dividends on equity *shares*;

(b) any forecast changes in dividends which have been publicly announced by the *valuation date*;

(c) the effect of any alterations in capital structure; and

(d) the value (at the most recent date for which it is known at the *valuation date*) of any determinant of the amount of any future interest payment, the said value being deemed to remain unaltered for all subsequent dates.

(5A) For variable interest investments that are equity *shares* in *companies* subject to, or drawing up accounts as if subject to, legislation implementing the *Accounts Directives*, or which draw up a set of accounts in accordance with International Accounting Standards Committee accounting standards or US generally accepted accounting practice, the yield on an asset, subject to (7A), must be the ratio to the value of the asset of-

(a) A + B; or

(b) 2 times A,

whichever is lower,

where A = the income which would be received if it were calculated in accordance with (5),

and B = half the excess (if any) of the relevant amount over A, but B must not be less than zero.

(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 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 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.

(6) Subject to (6a), for variable interest investments (that is to say, investments which are not *fixed interest securities*) other than equity *shares* or land, the yield on an asset, subject to (7), must be that annual rate of interest which, if used to calculate the present value of future payments of interest, before deduction of tax, and the present value of repayments of capital, where applicable, would result in the sum of these amounts being equal to the value of the asset, on the assumption that-

(a) the value of any determinant of the amount of the next interest rate payment and capital repayment made during the following twelve months will be the value of that determinant at the most recent date for which it is known at the *valuation date*;

(b) the amount of future interest payments and capital repayments will take account, where appropriate, of-

(i) the right of either party to have the investment repaid, and

(ii) an assumed yield on other comparable investments made in the future not exceeding an amount determined in accordance with (8) to (10); and

(c) indices and all other factors which affect future income payments or capital repayment will remain unchanged after the *valuation date*.

(6A) For investments in *collective investment schemes* given a value as an asset in accordance with paragraph 10 of Appendix 4, the yield may be determined as the weighted average of the yields (as determined by this rule) on each of the investments held by the *collective investment scheme.*

(7) In calculating the yield on an asset under this rule-

(a) if the asset does not consist of equity *shares* or land-

(i) a prudent adjustment must be made to exclude that part of the yield estimated to represent compensation for the risk that the income from the asset might not be maintained or that capital repayments might not be received as they fall due; and

(ii) in making that adjustment, regard must be had wherever possible to the yields on risk-free investments of a similar term in the same currency;

(b) for assets which are equity *share*s or land, adjustments to yields must be made as appropriate to exclude that part, if any, of the yield from each category of asset that is needed to compensation for the risk that the aggregate income from that category of asset, taking one year with another, might not be maintained; for the purposes of this paragraph, a "category of asset" comprises assets of a similar nature, type and degree of risk.

(7A) Notwithstanding (7)(b), for equity *shares* within (5A), adjustments to yields must be made as appropriate to exclude that part, if any, of the yield from each 'category of asset' that is needed to compensate for the risk that the aggregate profits earned by a *company* might not be maintained; and for the purposes of this paragraph, **category of asset** has the same meaning as in (7)(b).

(8) To the extent that it is necessary to make an assumption about the yields which will be obtained on sums to be invested in future, the yield must be determined in accordance with (9) and (10).

(9) Where the liabilities are denominated in sterling, the yield assumed, before any adjustments to take account of the effect of taxation-

(a) on any investment to be made more than three years after the *valuation date*, must not exceed the lowest of-

(i) the long-term gilt yield current on the *valuation date*,

(ii) 3% per annum, increased by two-thirds of the excess, if any, of the long-term gilt yield current on the *valuation date* over 3% per annum, or

(iii) 6.5% per annum,

where "the long-term gilt yield" means the annualised equivalent of the 15 year yield for United Kingdom Government *fixed-interest securities* jointly compiled by the Financial Times, the Institute of Actuaries and the Faculty of Actuaries; and

(b) on any investment to be made at any time not more than three years after the *valuation date* must not exceed the assumed yield determined under (2) adjusted linearly over the said three years to the yield determined in accordance with (a).

(10) Where the liabilities are denominated in currencies other than sterling, the yield must be determined on assumptions that are as prudent as those made under (9).

(11) In no case must a rate of interest determined for the purposes of (1) exceed, the adjusted overall yield on assets calculated as the weighted average of the reduced yields on the individual assets arrived at under (2); and when that weighted average is calculated-

(a) the weight given to each investment must be its value as an asset determined in accordance the *asset valuation rules*, excluding any provision under which assets may be taken at lower book values for the purposes of any investigation to which rule 5.1 or rule 5.2 applies; and

(b) except in relation to the rate of interest used in valuing payments of *property linked benefits*, both the yield and the value of any *linked assets* (as so defined) must be omitted from the calculation.

(12) For the purpose of determining the rates of interest to be used in valuing a particular category of contracts the assets may, where appropriate, be notionally apportioned between different categories of contracts.

Rates of mortality and disability

11. The amount of the liability in respect of any category of contract must, where relevant, be determined on the basis of prudent rates of mortality and disability and any other decrement that take into account-

(a) where the *policyholder* is an individual, the state in which he has his habitual residence; and

(b) where the *policyholder* is not an individual, the state in which the establishment of the *policyholder* to which the *commitment* covered by the contract relates is situated.

Expenses

12. (1) Provision for expenses, whether implicit or explicit, must be not less than the amount required, on prudent assumptions, to meet the total net cost, after taking account of the effect of taxation, that would be likely to be incurred in fulfilling contracts if the *friendly society* were to cease to transact new business twelve months after the *valuation date*.

(2) The provision mentioned in (1) must have regard to, among other things, the *friendly society*'s actual expenses in the last twelve months before the *valuation date* and to the effects of inflation on future expenses on prudent assumptions as to the future rates of increase in prices and earnings.

Options

13. (1) Provision must be made on prudent assumptions to cover any increase in liabilities caused by *policyholder*s exercising *options* under their contracts.

(2) Where a contract includes an *option* whereby the *policyholder* could secure a guaranteed cash payment within twelve months following the *valuation date*, the provision for that *option* must be such as to ensure that the value placed on the contract is not less than the amount required to provide for the payments that would have to be made if the *option* were exercised.

(3) Where a contract includes an option whereby the *policyholder* could secure a cash payment but (2) does not apply, the provision for that option must be such as to ensure that, if the assumptions adopted for the valuation of the contract are fulfilled in practice –

(a) the resulting value (and therefore the provision) is not less than the amount required to provide for the payment which would have to be made if the option were exercised; and

(b) the payment when it falls due is covered from resources arising solely from the contract and from the assets covering the amount of the liability determined at the current valuation.

(4) For the purposes of (3) the amount of a cash payment secured by the exercise of an option is assumed to be -

(a) in the case of an *accumulating with-profits policy*, the lower of-

(i) the amount which would reasonably be expected to be paid if the option were exercised, having regard to the representations of the *friendly society;* and

(ii) that amount, disregarding all discretionary adjustments; and

(b) in the case of any other policy to which this paragraph applies, the amount which would reasonably be expected to be paid if the option were exercised, having regard to the representations of the *friendly society*, without taking into account any expectations regarding future distributions of profits or the granting of discretionary additions in respect of an *established surplus* or in anticipation of such additions.

Contracts not to be treated as assets

14. No contract for *long-term insurance business* must be treated as an asset.

No credits for profits from voluntary discontinuance

15. Allowance must not be made in the valuation for the voluntary discontinuance of any contract if the amount of the liability so determined would thereby be reduced.

Nature and term of assets

16. The determination of the amount of *long-term liabilities* must take into account the nature and term of the assets representing those liabilities and the value placed upon them and must include prudent provision against the effects of possible future changes in the value of the assets on-

(a) the ability of the *friendly society* to meet its obligations arising under contracts for *long-term insurance business* as they arise; and

(b) the adequacy of the assets to meet the liabilities as determined in accordance with 6 to 15.

Appendix 6

BALANCE SHEET
(Forms 9 to 17)

1. All the Forms included in the part of the *FSC return* to which this Appendix relates (Forms 9 to 17) must be completed as required by this Appendix.

Currency

2. A supplementary note to Form FSC1 or Form FSC3 (as appropriate) must be included in the *FSC return* stating the bases of conversion employed for -

(a) amounts of *premiums* and other income *receivable* in a currency other than sterling; and

(b) the amounts of *claims* and other expenditure payable in a currency other than sterling.

Presentation of Amounts

3. (1) Where in any Form an amount which is shown as brought forward from a previous period differs from the corresponding amount shown as carried forward from that period and the difference is not due solely to the fact that a different rate has been used to express other currencies in sterling, an explanation of the reason for the difference must be given by way of a supplementary note to that Form.

(2) Except to the extent permitted by (3), amounts due to or from the *friendly society* must be shown gross.

(3) In calculating amounts due from or to the *friendly society* (other than for the completion of Form 17),

(a) amounts due from any person may, unless expressly provided otherwise, be included net of amounts which are due to that person, provided that such amounts may be set-off against each other under generally accepted accounting practice; and

(b) amounts due to any person may, unless expressly provided otherwise, be included net of amounts due from that person, provided that such amounts may be set-off against each other under generally accepted accounting practice.

(4) If the amounts shown include amounts calculated on the basis set out in (3), a supplementary note to Form 13 to that effect must be provided.

4. In Form 9 -

(a) for a *friendly society* carrying on only *long-term insurance business*, lines 11 to 13 may be omitted;

(b) for a *friendly society* carrying on only *general insurance business*, lines 21 to 44 may be omitted;

(b) the *implicit items* at lines 11a, 31, 32 and 33 are those admitted under rule 4.8 to 4.10;

(d) the entry at lines 51 and 52 must not include provision for any liability to tax on capital gains referred to in 9(2)(b); and

(e) in the FSC1 return the entries at lines 11 to 13 may be a prudent estimate with reference to the last periodic investigation into the financial condition of the *friendly society* in respect of its *general insurance business*.

Margin of solvency for general insurance

5. (1) Amounts included in Forms 11 and 12 in respect of -

(a) gross premiums receivable,
(b) *claims* paid,
(c) *claims* outstanding, and
(d) reinsurance recoveries,

must be determined in accordance with rule 4.6 and Appendix 2.

(2) Where any amount included in Form 11 or 12 pursuant to (1) above differs from the aggregate of the corresponding amounts included in Forms 21 and 22, there must be stated by way of supplementary note to Form 11 or 12, as the case may be,

(a) the amount of such difference, and
(b) an explanation for such difference.

Investment

6. In Form 13 -

(a) a Form 13 must be completed for the total *long-term insurance business* assets of the *friendly society* and for each fund or group of funds for which separate assets are appropriated. The words "Total *long-term insurance business assets*" or the name of the fund must be shown against the heading "Category of assets";

(b) a separate Form 13 must be completed in respect of the total assets of the *friendly society* other than any *long-term insurance business assets*. The words "Total other than *long-term insurance business assets*" must be shown against the heading "Category of assets";

(c) in lines 11 to 86: for the purpose of classifying (but not valuing) assets, headings and descriptions used in the Form, whenever they also occur in the balance sheet format prescribed by the *Accounts Regulations*, must have the same meaning as in those *Accounts Regulations*; assets must be valued in accordance with the *asset valuation rules*; and assets of any particular description must be shown after deduction of assets of that description which (for any reason) fall to be left out of account under 15(2)(a) of Appendix 4;

(d) the aggregate value of those investments which are:

(i) *unlisted* investments falling within any of lines 41, 42, 46 or 48 which have been valued in accordance with 9 of Appendix 4, or

(ii) *listed* investments falling within any of lines 41, 42, 46 or 48 which have been valued in accordance with 9 of Appendix 4 and which are not *readily realisable*, or

(iii) units or other beneficial interests in *collective investment scheme*s falling within 10(1)(c) of Appendix 4, or

(iv) reversionary interests or remainders in property other than land or buildings,

must be stated by way of a supplementary note to this Form, together with a description of such investments;

(e) the aggregate value of those investments falling within lines 46 or 48 which are hybrid *securities* must be stated by way of a supplementary note to this Form; and

(f) lines 60 to 63 and 85 relate only to *general insurance business*.

Counterparty exposure

7. (1) There must be given by way of a supplementary note to Form 13 -

(a) the maximum extent to which, in accordance with any investment guidelines operated by the *friendly society*, it was permitted to be exposed to any one *counterparty* during the period;

(b) the maximum extent to which, in accordance with such guidelines, it was permitted to be exposed to any one *counterparty*, other than by way of *exposure* to an *approved counterparty*, during the period; and

(c) an account of any occasions during the period on which either of those amounts was exceeded.

(2) In each case where the *exposure* of the *friendly society* to a *counterparty* (calculated in accordance with Annex B of Appendix 4) at the end of the period exceeds 5% of its *long-term insurance business* or *general insurance business amount*, as appropriate, the amount of that *exposure* and the nature of the assets held which give rise to that *exposure*, must be stated by way of a note to Form 13.

Provision for adverse changes

8. There must be stated by way of a note to Form 14 (and in Form 15 in respect of any *general insurance business*) the methods and assumptions used to determine the amount of any provision made pursuant to 4 in Appendix 5 or, if there is no such provision, the methods and assumptions used to determine that no provision is required.

Liabilities

9. (1) Form 14 must be completed for the total *long-term insurance business liabilities* and margins of the *friendly society* and for each fund or group of funds for which separate assets are appropriated. The words "Total *long-term insurance business assets*" or the name of the fund must be shown against the heading "Category of assets".

(2) Subject to (4) and (5), the following information must be given by way of a supplementary note to Form 14 or 15 -

(a) in the case of any charge over the assets of the *friendly society* (including any arrangement whatsoever, whether contractual or otherwise, which operates to secure the prior claim of any person over general creditors to any assets on a winding up of a *friendly society*), the particulars specified in (3) or a statement that there are no such charges;

(b) the total potential liability, and the amount provided for that liability, to taxation on capital gains which might arise if the *friendly society* disposed of its assets, or a statement that there is no such potential liability;

(c) a brief description of any other liabilities being contingent liabilities not included in Form 14 or 15 (other than liabilities arising under an inwards *contract of insurance*) including, where practicable, the amounts or estimated amounts of those liabilities, or a statement that there are no such contingent liabilities;

(d) a brief description of any guarantee, indemnity or other contractual *commitment*, effected by the *friendly society* other than in the ordinary course of its *insurance business*, in respect of the existing or future liabilities of any *associate* bodies, including -

(i) the maximum liability of the *friendly society* specified in such guarantee, indemnity or contractual *commitment*, or a statement that no such amount is specified,

(ii) the amount of any provision made in respect of such liability, and

(iii) the amount reported under (c) in respect of such liability,

or a statement that there are no such guarantees, indemnities or contractual *commitments*; and

(e) a description of any other uncertainty where such a description is, in the opinion of the *committee*, necessary for a proper understanding of the financial position of the *friendly society*.

(3) The particulars referred to in (2)(a) are -

(a) the nature of the charge, including a brief description of the terms which are relevant to securing the prior claim of any person to assets which are subject to the charge;

(b) for each line in Form 13, the amount included in respect of assets which are subject to the charge; and

(c) for each line in Form 14 or 15, the amount included in respect of liabilities which are secured by the charge.

(4) (2)(a) and (c) may be disregarded by a *friendly society* in the case of -

(a) one or more charges over assets which are attributable to either the *long-term insurance business assets* or the *general insurance business assets* and whose aggregate value (as shown on Form 13) does not exceed 2.5% of the long-term or *general insurance business amount*, as the case may be;

(b) one or more contingent liabilities whose aggregate value does not exceed 2.5% of the long-term or *general insurance business amount*, as the case may be.

(5) (2)(d) may be disregarded by a *friendly society* in respect of one or more guarantees, indemnities or contractual *commitments* where the aggregate of the maximum liabilities specified in such guarantees, indemnities or contractual *commitments* does not exceed 2.5% of the *long-term* or *general insurance business amount*, as the case may be.

Derivative contracts

10. (1) Form 17 must be completed in respect of the total *long-term insurance business assets* and in respect of the total other than *long-term insurance business assets* of the *friendly society*. Form 17 must also be completed for each fund or group of funds for which separate assets are appropriated. The words "Total *long-term insurance business assets*" or "Total other than *long- term insurance business assets*" or the name of the fund must be shown against the heading "Category of assets".

(2) Any *derivative contract* entered into by the *friendly society* -

(a) the value of which is taken into account for the purpose of calculating benefits payable to *policyholders* and members under *property linked contracts*; or

(b) in order to match its liabilities in respect of the payment of *index-linked benefits*,

must be excluded from Form 17. Rights to recover assets transferred by way of *initial margin* must not be shown on Form 17.

(3) *Derivative contracts* must be analysed according to the description of assets shown in the second column to Form 17 which represents the principal subject of the contract, and must be reported as assets in column 1 of Form 17 if their value (gross of *variation margin*) to the *friendly society* is positive and as liabilities in column 2 of Form 17 if their value (gross of *variation margin*) to the *friendly society* is negative.

(4) All amounts included in lines 11 to 35 of Form 17 in respect of *derivative contracts* must be determined without making any allowance for *variation*

margin and the effect of any *variation margin* upon those amounts must be shown at line 41.

(5) Amounts in respect of a *derivative contract* may only be included net of amounts in respect of any other *derivative contract* if -

(a) obligations of the *friendly society* under the contracts may be set-off against each other under generally accepted accounting practice; and

(b) such other contract has the effect (in whole or in part) of closing out the obligations of the *friendly society* under the first mentioned contract.

(6) Where, in respect of any *derivative contract* included in Form 17, assets have been transferred to or for the benefit of a *friendly society* by way of *variation margin* there must be stated by way of a supplementary note to Form 17 -

(a) the aggregate amount of any liability to repay such assets or equivalent assets;

(b) for each line in Form 13, the amount included in respect of such assets; and

(c) to what extent any amounts included in Form 13 have taken account of any requirement to repay such assets or equivalent assets.

(7) If -

(a) the aggregate value of rights, under contracts or in respect of assets, either of which have the effect of *derivative contracts*, exceeds 2.5% of the aggregate value of assets shown at line 89 of Form 13; or

(b) the aggregate amount of liabilities under contracts or in respect of assets, either of which have the effect of *derivative contracts*, exceeds 2.5% of the aggregate of the amounts shown in lines 17 to 39 of Form 14 or lines 31 to 51 of Form 15, as appropriate,

the corresponding value, if not zero, must be stated by way of a supplementary note to Form 17 for each line in Forms 13, 14 and 15 and (6) applies to the *friendly society* as if such contracts had been included in Form 17.

(8) Every *friendly society* must, in respect of the period, annex to Form 17 a supplementary note comprising a brief description of

(a) any investment guidelines operated by the *friendly society* for the use of *derivative contracts* (including a contract or asset which, wholly or in part, has the effect of a *derivative contract*);

(b) any provision made by such guidelines for the use of contracts under which the *friendly society* had a right or obligation to acquire or dispose of assets which was not, at the time when the contract was entered into, reasonably likely to be exercised and, if so, the circumstances in which, pursuant to that provision, such contracts would be used;

(c) the extent to which the *friendly society* was during the period a party to any contracts of the kind described in (b);

(d) the extent to which any of the amounts recorded in Form 13 would be changed if assets which the *friendly society* had a right or obligation to acquire or dispose of under *derivative contracts* outstanding at the end of the period (being in the case of *options*, only those *options* which it is prudent to assume would be exercised) had been so acquired or disposed of;

(e) how different the information provided pursuant to (d) would have been if such *options* as were outstanding at the end of the period had been exercised in such a way as to change the amounts referred to in (d) to the maximum extent;

(f) how different the information provided pursuant to (d) and (e) would have been if, instead of applying to contracts outstanding at the end of the period, they had applied to *derivative contracts* outstanding at such other time during the period as would have changed the amounts referred to in (d) and (e) to the maximum extent;

(g) the maximum loss which would be incurred by the *friendly society* on the failure by any one other person to fulfil its obligations under *derivative contracts* outstanding at the end of the period, both under existing market conditions and in the event of other foreseeable market conditions, together with an assessment of whether such maximum loss would have been materially different at any other time during the period;

(h) the circumstances surrounding the use of any *derivative contract* held at any time during the period which did not fall within 13(2) of Appendix 4, or (where appropriate) within the definition of *permitted derivative contract*; and

(i) the total value of any fixed consideration received by the *friendly society* (whether in cash or otherwise) during the period in return for granting rights under *derivative contracts* and a summary of contracts under which such rights have been granted.

(9) For the purposes of 10, a *friendly society* which is a party to -

(a) a *contract for differences*; or

(b) any other contract which is to be, or may be, settled in cash,

must be taken to have a right or obligation to acquire or dispose of the asset*s* underlying the contract.

Appendix 7

GENERAL INSURANCE BUSINESS: REVENUE ACCOUNT AND ADDITIONAL INFORMATION (Forms 20 to 23A)

1. All the Forms included in the part of the FSC3 Return to which this Appendix relates (Forms 20 to 23A) are to be completed as required by this Appendix.

Premiums

2. In all Forms to which this Appendix relates, amounts required to be shown in respect of *premiums* must be shown before deduction for commissions.

3. For the purposes of Form 23 -

   (a) *gross premiums* earned in respect of a period must be such proportion of *gross premiums* written as is attributable to risks borne by the *friendly society* during that period; and

   (b) the reinsurers' share of *premiums* earned must be attributed to the same period as the corresponding *gross premiums* earned, so as to calculate the net earned *premium* for the period.

Unearned premiums

4. In Form 21, the basis on which unearned *premiums* are calculated and the reason for adopting this basis must be stated by way of supplementary note.

Acquisition costs

5. The basis used for the determination of amounts for acquisition costs (other than commission) payable in the period in question and carried forward to the next period, as shown at line 22 of Form 22, must be stated by way of a supplementary note to that Form.

Claims

6. In all Forms to which this Appendix relates, amounts required to be shown for *claims* must not include amounts in respect of *claims management costs*.

7. (1) In Form 23, where an amount or number is required to be shown for *claims* in respect of a period, that amount or number must be determined on the basis of *claims* arising from incidents occurring during that period.

   (2) For the purposes of (1), an incident giving rise to a claim under a *claims-made policy* must be deemed to occur on the earlier of -

   (a) the date on which it is notified in accordance with the terms of that policy; or

   (b) the date on which the period for which cover is provided under that policy expires.

Reinsurance

8. Where the reinsurers' share of *claims* incurred (as stated in Form 22) includes amounts expected to be recovered from reinsurers more than twelve months after the payment of the underlying gross *claims* by the *friendly society*, the amount of such recoveries must be stated by way of note to Form 22.

Administration

9. Where arrangements have been made for the provision of management services to a *friendly society* by another organisation, there must be given by way of supplementary note to Form 20 a summary of the arrangements in force including details of the organisation providing the service.

Claim*s* management costs

10. (1) In Form 22, the basis used for the determination of amounts for *claims management costs* payable in the period in question and carried forward to the following period must be stated by way of note.

(2) If, in respect of any *class* of *general insurance business* -

(a) no amount for *claims management costs* is shown as being carried forward to the following period, and

(b) an amount for net *claims* is shown as being carried forward to that period,

the reason for anticipating that there will be no *claims management costs* incurred during the following period must be included in the note required by (1).

(3) If, within a *class* of *general insurance business*, a *friendly society* has ceased to effect new contracts of insurance (that is any *contract of insurance* effected by the *friendly society* other than in fulfilment of its obligations under subsisting contracts) during the period in question, the basis upon which any additional costs arising as a result of such cessation have been determined or the reason for anticipating that no such additional costs will be incurred must be included in the note required by (1).

(4) Where the amount in respect of *claims management costs* carried forward included in any Form 22 has been determined after taking into account the expected investment return, the following must be stated by way of supplementary note -

(a) the rates of investment return assumed; and

(b) the average interval between the end of the period in question and the date by which the *claims management costs* are expected to be expended.

Provision for unexpired risks

11. (1) The amount included for the provision for unexpired risks in any Form 22 prepared in respect of a *class* of *general insurance business* must include any amount determined to be a necessary provision in relation to the reasonable expectations of the *friendly society*'s policyholders and must further be

determined without taking into account any surplus expected to arise on the unexpired risks falling within other *classes* of *general insurance business*.

(2) Where in determining the amount of the overall provision for unexpired risks (line 13 in Form 15 less line 62 of Form 13) credit has been taken for any aggregate surplus expected to arise on the unexpired risks falling in any *class* of *general insurance business*, the amount of that credit must be included as a negative amount at line 19 of Form 22 for that *class* of *general insurance business*.

(3) Where the amount included at column 3 of line 19 (provision for unexpired risks) in any Form 22 has been determined after taking into account the expected investment return, the following must be stated by way of supplementary note -

(a) the provision for unexpired risks before taking such investment return into account;

(b) the rates of investment return assumed; and

(c) the average interval between the end of the period in question and the date at which *claims* are expected to be settled in cash.

Cessation of business

12. If the *friendly society* has not effected any new contracts of insurance (that is any *contract of insurance* effected by the *friendly society* other than in fulfilment of its obligations under subsisting contracts of insurance) of any one or more *classes* of *general insurance business* during the period, the date on which the last new contract of each such *class* was effected must be stated by way of supplementary note to Form 20.

General insurance business statement

13. The following information must be given in Form 23A -

(a) the date to which the investigation relates;

(b) the date to which the latest previous investigation under rule 5.2; and

(c) a synopsis of the report by the *appropriate actuary* on his investigation into the financial condition of the *friendly society* in respect of its *general insurance business*, including the actuary's assessment of the financial viability of the *friendly society* and his interpretation of the reasonable expectations of its members.

Appendix 8

LONG-TERM INSURANCE BUSINESS: REVENUE ACCOUNT, OTHER REVENUE ACCOUNT AND ADDITIONAL INFORMATION
(Forms 40 to 45)

1. Forms 40 to 45 are to be completed as required by this Appendix.

2. (1) All amounts must be shown in sterling and, except for valuation unit prices, may only be shown to the nearer £1,000 in the circumstances described in rule 5.25.

(2) A note must be included in the *FSC return* stating the bases of conversion for amounts in currencies other than sterling in accordance with 2 of Appendix 6.

(3) Valuation unit prices must be shown to the same accuracy as used in the valuation.

3. Where a *friendly society* maintains more than one *long-term insurance business* fund, other revenue account fund or members surplus and savings accounts, a statement must be annexed to Forms 40, 40A and 40C giving the principles and methods applied to apportioning the investment income, increase or decrease in the value of assets brought into account, expenses and taxation between the different funds and accounts.

4. The box marked "Name of Fund/Summary" in each Form must be completed by the inclusion of a discrete name or number to identify each fund or, if the Form relates to a part of the fund, the fund of which it is part. Where there is only one fund for ordinary *long-term insurance business* or for *industrial assurance business* or for some other revenue account fund, as the case may be, the number "1" must be shown in the box marked "No. of Fund/Summary". Where the Form is a summary Form the number "99" must be inserted in that box. The box marked "No. of part of fund" must show a discrete number for each part of a fund or the figure "0" if the Form is a statement of the whole fund.

5. In Form 40 –

(a) any item of income which cannot properly be allocated to lines 11, 12, 13, 14, or 14a must be entered in line 15, and similarly, any item of expenditure which cannot properly be allocated to lines 21, 22, 23 or 24 must be entered in line 25. Particulars of such items must be specified in a supplementary note;

(b) where a *friendly society* decides to allocate to the *long-term insurance business* the whole or any part of investment income and/or net capital gains arising from assets not attributable to its *long-term insurance business*, the amounts in question must be shown as a transfer in line 14a or 26 and particulars must be specified in a supplementary note;

(c) the entry at line 12 is to exclude value re-adjustments on investments and gains on the realisation of investments, which must be shown in lines 13 or 14 as appropriate;

(d) the entry at line 11 is to exclude any change in the provision for unearned *premiums*; and

(e) the entry at line 21 is to exclude *claims management costs*, which must be included in line 21 of Form 40B, and any change in the provisions of *claims*.

6. Where arrangements have been made for the provision of management services to a *friendly society* by another organisation, there must be given by way of supplementary note to Form 40B a summary of the arrangements in force including details of the organisation providing the service.

7. Societies conducting combined sickness and savings business must, in respect of members surplus and savings accounts, complete separate Forms 40C for the transactions which have been classified as relating to *long-term insurance business* and for the transactions which have been classified as not relating to *long-term insurance business*.

8. Forms 41 to 45 are to be completed separately in respect of each fund for which a separate *long-term insurance business* revenue account fund is required to be prepared in Forms 40.

9. In Form 41, in dividing the *management expenses* between lines 43, 44 and 45;

(a) costs of a non-recurring nature, such as those incurred in developing new systems, new premises, or the costs of corporate re-structuring, must normally be shown in line 45;

(b) the costs incurred in writing new business (or in obtaining incremental (but not indexed) *premiums* on existing business), such as underwriting, policy issue, setting up (or amending) records and the maintenance and development of the sales and marketing organisation must be reported in line 43; and

(c) the balancing item will be expenses related to the ongoing costs throughout the year of maintaining the business in force (including any investment management costs) and must be reported in line 44.

10. In Form 43 -

(a) the basis on which assets have been valued must be stated in a supplementary note;

(b) the aggregate value of rights (gross of *variation margin*) and the aggregate amount of liabilities (gross of *variation margin*) under *derivative contracts* (or in respect of contracts or assets which have the effect of a *derivative contract*) must be stated in a supplementary note. The corresponding figures net of *variation margin* must also be stated. For this purpose, rights and liabilities must not be set off against one another unless

(i) such rights and liabilities may be set off against each other in accordance with generally accepted accounting principles, and

(ii) such set off results (in whole or in part) from the closing out of obligations under a contract; and

(c) where there is a liability to repay *variation margin* and there are no arrangements for netting of amounts outstanding or the arrangements would not permit the accounting of such amounts on a net basis in accordance with generally accepted accounting principles it must be so stated in a supplementary note.

11. In Form 44 -

(a) double counting of items arising from cross investment between *internal linked fund*s is to be eliminated;

(b) any item of income which cannot properly be allocated to lines 11, 12 or 13 must be entered in line 14, and similarly, any item of expenditure which cannot properly be allocated to lines 21, 22, 23, 24 or 25 must be entered in line 26 and particulars of such items must be specified in a supplementary note; and

(c) the gross value of units created must be shown in line 11 and the gross value of units cancelled must be shown in line 21.

12. In Form 45 -

(a) Column 3 must show the provision for tax on unrealised capital gains as a percentage of the taxable unrealised capital gain. Similarly, column 4 must show the provision for tax on realised capital gains as a percentage of the taxable realised capital gain;

(b) the liquidity percentage in column 5 must be the sum of the values of *approved securities*, short-term deposits and cash held by the fund, less any liabilities included in column 6 or 7 of Form 43 shown as a percentage of the *net asset value* in column 8 of Form 43; and

(c) where there is more than one series of units for any *internal linked fund* the valuation price of each series of unit must be given in column 6 together with the name of that series of unit.

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.

Appendix 9

ABSTRACT OF ACTUARIAL INVESTIGATION (Forms 46 to 61A)

The following information must be given in Form 61A of the *FSC return* and

(i) the answers must be numbered to accord with the corresponding numbers of this Appendix;

(ii) all amounts must be shown in sterling and, except for valuation unit prices, may only be shown to the nearer £1,000 in the circumstances described in rule 5.25;

(iii) valuation unit prices must be shown to the same accuracy as used in the valuation; and

(iv) yields must be shown as percentages to two decimal places.

1. The *valuation date*.

2. The date to which the latest previous investigation under rule 5.1 related.

3. A statement that the valuation has been made in conformity with 5 in Appendix 5 or, where this was not the case, such qualification, amplification or explanation as necessary.

4. (1) Subject to (2), for each category of *non-linked contract* which -

(a) comprises *accumulating with-profit policies*, a full description of the benefits, including -

(i) the circumstances in which, and method by which, an adjustment to the identifiable current benefit attributable to a policy could be made on the payment of any claim, including by full or partial surrender, or upon the determination of the amount of any charges deducted under the policy together with a description of the *friendly society's* policy and past practice in this regard;

(ii) where the discounted value of the liability in respect of current benefits including vested bonuses shown in column 12 of Form 52 is less than the full amount of the current benefit shown in column 11 and the discounted value assumes the exercise of any discretionary adjustments of the type referred to in (a)(i), a general description of such adjustments made during the period;

(iii) any guaranteed investment returns or bonus rates;

(iv) any guaranteed surrender values; and

(v) any material options;

(b) comprises policies (other than those included in (a)) which provide for benefits to be determined on the basis of interest accrued (at a rate to be determined from time to time) in respect of *premiums* paid, a full description of the benefits, including -

(i) the method used to calculate surrender values;

(ii) any guaranteed investment returns;

(iii) rates of interest applied during the period;

(iv) any guaranteed surrender values; and

(v) any material options; and

(c) does not fall within (a) or (b) and which is not sufficiently described by the entry in column 1 of Form 51, a full description of the benefits, including any *premium* rate guarantees and material options.

(2) Information required under (1) need not be provided for any category of contract -

(a) where no contracts were effected by the *friendly society* during the period; and

(b) which has been included in Forms 51 or 52 under the miscellaneous headings specified in 20(3)(e)(vi) and 20(3)(e)(x).

5. (1) Subject to (4), for each category of *linked long-term contract* -

(a) the name given to that category;

(b) the type of contract, classified according to the categories set out in 20(3)(a), (b), (c), (d) and (e);

(c) a statement of the frequency of *premiums*;

(d) a brief description of the benefits under the contract, including any eligibility to participate in profits, any guarantees and any material options;

(e) details of any guaranteed investment returns;

(f) a description of the way in which the *friendly society* recovers out of policies its costs (including acquisition expenses and commission, renewal expenses and commission and the costs attributable to the provision of policy benefits). Where the policy provides for the allocation of units, the annual rate of any management charges must be given. Where the amount of *premiums* deemed to be invested after allowing for the effect of any charges is greater than the amount of the *premiums*, an explanation must be given;

(g) details of any restrictions on increases in charges;

(h) the method used to calculate surrender or transfer values;

(i) whether benefits are (or may be) determined (whether wholly or in part) by reference to the value of an *internal linked fund* or to the value of assets or an index. Where the link is to the value of assets or an index, those assets or that index must be specified and details of the relationship between their value and benefits payable to *policyholders* must be given;

(j) a brief description of any other features of the contract not disclosed which are material to the method and basis of valuation;

(k) whether the contract was open to new business in the period to the *valuation date*; and

(l) any increases in the rates of charges applied generally to contracts during the period, including charges for the provision of policy benefits met by the cancellation of units notionally allocated to contracts.

(2) Where the terms and conditions and the method and basis for determining the amount of the *long-term liabilities* are not materially different for a number of categories of contract, only one description need be given pursuant to (1), provided that the name of each such category is given in the *friendly society*'s response to (1)(a).

(3) For each category of *linked long-term contract* which contains a with-profits option, the information required by 4(1)(a) must also be given.

(4) Information required under (1)(a) to (k) and (3) need not be provided for any category of contract

(a) where no contracts were effected by the *friendly society* during the period; and

(b) which has been included under the miscellaneous heading in Form 53 or 54.

(5) A description of the method, or if there is more than one method of the methods and the types of unit to which each applies, used for the creation and cancellation of units in the *internal linked fund* and determining unit prices for the allocation of units to, and the cancellation of units from, policies.

(6) A description of the method, or if there is more than one method of the methods and the types of unit to which each applies, used to determine the provision for tax on realised and unrealised capital gains and the percentage or percentages of these gains deducted or provided for during the period.

(7) Whenever units of the type referred to in 5 of Appendix 3 are held by an *internal linked fund*, or where *property linked benefits* are linked to such units, the rate of discount, commission or other allowance made to the *friendly society* on the purchase, sale or holding of units and the extent to which the *policyholder* or member benefits from such discount, commission or other allowance.

6. (1) The general principles and methods adopted in the valuation including specific reference to the following

(a) the method by which account has been taken of *derivative contracts* or contracts or assets having the effect of *derivative contracts* in the determination of the amount of the *long-term liabilities*;

(b) the method by which due regard has been given to the reasonable expectations of *policyholders* as required by 5 in Appendix 5 by which account has been taken of the custom and practice of the *friendly society* in the manner and timing of the distribution of profits or the grant of discretionary additions over the duration of each policy, as required by 6(6) in Appendix 5;

(c) where the net *premium* method has been used, whether and to what extent it has been modified, for what purposes any such modification has been made and whether any modifications on account of *zillmerising* conform to 9 in Appendix 5;

(b) whether any negative reserves arose and the steps taken to ensure that no *contract of insurance* was treated as an asset, as required by 14 in Appendix 5;

(e) whether any specific reserve has been made for future bonuses and, if so, at what rate or rates;

(f) the basis of the provision made for any prospective liability for tax on unrealised capital gains;

(g) in the case of *linked long-term contract*s and contracts falling within 4(1)(a) and 4(1)(b), the basis of the reserve made for any investment performance guarantees; and

(h) the basis of the reserve made for any guarantees and options (other than investment performance guarantees included in (g)).

(2) For the purpose of (1) where, in determining the provisions referred to in (1)(f) or the reserves referred to in 7(7) or 7(8), account has been taken of the fact that the fund has been brought into Form 58 at book value in accordance with 2(6) of Appendix 4, that fact must be stated.

7. (1) Unless shown in Forms 51, 52, 53 or 54, the rates of interest and tables of mortality and morbidity assumed in the valuation of each category of contracts.

(2) If the tables used have not been published, full details of the rates of mortality or morbidity used.

(3) A general description of how the tables of mortality and morbidity assumed in the valuation of the various categories of contract have regard to the State of the *commitment*.

(4) Details of any allowance made for future reductions in the rates of mortality in the tables of mortality assumed in the valuation of annuity contracts.

(5) Details of any allowance made, and the amount of any reserve held, for any possible detrimental impact of significant changes in the incidence of disease or developments in medical science on the mortality and morbidity experience

of the *friendly society* in the tables of mortality and morbidity assumed in the valuation of contracts.

(6) A description of all the scenarios of future changes in the value of assets which have been tested in order to take account of the nature (including currency) and term of the assets held in determining the amount of the *long-term liabilities* in accordance with 16 in Appendix 5 identifying that scenario which produces the most onerous requirement (whether or not a reserve is thereby required).

(7) The amount of any reserve made pursuant to 16(a) in Appendix 5, together with a brief description of the method used and assumptions made to calculate any such reserve.

(8) In respect of that scenario described under (6) which produces the most onerous requirement (whether or not a reserve is thereby required), the amount of any reserve made pursuant to16(b) in Appendix 5, together with -

(a) a description of the changed assumptions made (other than the changed interest rate stated in Form 57) in calculating such requirement;

(b) a brief description of the method used to calculate such requirement; and

(c) resulting from the application of such changed assumptions -

(i) the change in the aggregate amount of the *long-term liabilities*, and

(ii) the aggregate amount by which the assets allocated to match such liabilities in the scenario have changed in value from the amount of those assets shown in Form 13.

(9) A general description of how the rates of interest assumed in the valuation of the various categories of contract with liabilities denominated in currencies other than sterling have taken into account the currency of the liabilities.

8. (1) In respect of *non-linked contract*s -

(a) where appropriate, the proportion of the office *premiums* explicitly or implicitly reserved for expenses and profits for each type of insurance (as shown in column 8 of Form 51 or column 10 of Form 52);

(b) the method by which a reserve has been made for expenses after *premiums* have ceased or where no future *premiums* are payable or where the method of valuation does not take credit for future *premiums* as an asset;

(c) where a prospective method of valuation has not been used, details of the tests made of the adequacy of the method used; and

(d) where in valuing contracts falling within the circumstances described in 8 of Appendix 5, future *premiums* brought into account are not in accordance with that rule, such additional information as is necessary to demonstrate whether the *mathematical reserves* determined in the aggregate for each of the main categories of contract are greater than an amount for each such category calculated in accordance with 6 to 16 in Appendix 5.

(2) Where the *mathematical reserves* (after deduction of reinsurance cessions) determined in the aggregate for all categories of contracts referred to in (1)(d) represent less than 5% of the total *mathematical reserves* (after deduction of reinsurance cessions) for all *non-linked contract*s, it is sufficient for the actuary to state that the *mathematical reserves* for each such category of contracts are not less than the *mathematical reserves* that would be determined on a net *premium* reserving basis which, in that case, must be specified by the actuary in the abstract.

9. For each category of *linked long-term contract*:-

(a) all assumptions made in calculating the valuation net liability in columns 12 and 13 of Form 53 and 54; and

(b) where an explicit reserve has not been made for meeting the expenses likely to be incurred in future in fulfilling the existing contracts on the basis of specific assumptions in regard to the relevant factors, details of the basis used in testing the adequacy of the reserves to satisfy 12(1) of Appendix 5.

10. (1) The assumed levels of inflation of expenses and the basis used in the valuation to allow for such future inflation.

(2) The aggregate amount, grossed up for taxation where appropriate, arising during the twelve months after the *valuation date* from implicit and explicit reserves made in the valuation to meet expenses in fulfilling contracts in force at the *valuation date* and a general description of the sources of such amounts.

(3) The method and basis of calculation of the requirement (whether or not a reserve is thereby required) in respect of the expenses of continuing to transact new business during the twelve months following the *valuation date* and the amount of the reserve so calculated.

(4) The method and basis of calculation of the requirement (whether or not a reserve is thereby required) to provide for the costs of closure to new business, if the *friendly society* were to cease to transact new business twelve months after the *valuation date* and the amount of the reserve so calculated.

11. (1) A schedule of the sum of the *mathematical reserves* (other than liabilities for *property linked benefits*) and the liabilities in respect of deposits received from reinsurers as shown in Form 14, analysed by reference to the currencies in which the liabilities are expressed to be payable together with the value of the assets, analysed by reference to currency, which match such liabilities.

(2) In the schedule required by (1), liabilities totalling up to 2% of the total required to be analysed may be grouped together as "other currencies", and the assets matching those liabilities need not be analysed provided that the proportion of such liabilities which are matched by assets in the same currency is stated.

12. (1) For *long-term insurance business* ceded on a facultative basis to a reinsurer who is not authorised to carry on *insurance business* in the United Kingdom at

any time during the period, the aggregate of *premiums* payable by the *friendly society* to all such reinsurers (divided according to *financial years*, if appropriate) and the aggregate amount deposited at the *valuation date* under any *deposit back arrangement*; and the amount of any such *premiums* payable by the *friendly society* to a reinsurer with whom the *friendly society* is connected and the aggregate amount deposited at the *valuation date* under any *deposit back arrangement.*

(2) For each treaty of reinsurance where the *friendly society* is the cedant and under which business is in force at the *valuation date* -

(a) the name of the reinsurer;

(b) whether the reinsurer is authorised to carry on *insurance business* in the United Kingdom;

(c) whether the *friendly society* and the reinsurer are connected;

(d) an indication of the nature and extent of the cover given under the treaty, including a description of any material contingencies, such as credit risk or legal risk, to which the treaty is subject;

(e) the *premiums* payable by the *friendly society* under the treaty during the period;

(f) the amount deposited at the *valuation date* in respect of the treaty under any *deposit back arrangement*s;

(g) the extent to which provision has been made for any liability of the *friendly society* to refund any amounts of reinsurance commission in the event of lapses or surrender of the contract; and

(h) whether the treaty is closed to new business.

(3) For each ‘financing arrangement’-

(a) the amount of any undischarged obligation of the *friendly society* and a brief description of the conditions for the discharge of such obligation; and

(b) a description of how, if at all, all such undischarged obligations have been taken into account in the valuation, including a description of the impact of the arrangement on the reported valuation result and any allowance made for material contingencies, such as credit risk or legal risk, associated with the financing arrangement for the purposes of the return.

(4) In this paragraph -

(a) financing arrangement means any contract entered into by the *friendly society*, in respect of *contracts of insurance* of the *friendly society*, which has the effect of increasing the amount of assets included at line 34 of Form 9, representing assets of the *friendly society* which are available to meet its *required minimum margin* for *long-term insurance business*, and which includes terms for -

(i) the transfer of assets to the *friendly society*, the creation of a *debt* to the *friendly society* or the transfer of liabilities to *policyholders* from the *friendly society* (or any combination of these), and

(ii) an obligation on the *friendly society* to return (with or without interest) some or all of such assets, a provision for the diminution of such *debt* or a provision for the recapture of the liabilities, in each case, in specified circumstances; and

(b) a reinsurer is connected with a *friendly society* if it is a *related undertaking* of the *friendly society*.

13. (1) Subject to (2), for each *with-profits fund*[11], except where such information is provided elsewhere in the FSC 1 return -

(a) a revenue account in the format of Form 40 with a supplementary note stating the amount, if any, of investment income relating to *linked assets* included in line 12; and

(b) a statement of liabilities and margins in the format of Form 14 with a supplementary note stating the amount, if any, of the increase or decrease, as the case may be, in the value of *non-linked assets.*

(2) Where the amount (or part of the amount) of any increase or decrease in *non-linked assets* has yet to be allocated between *with-profits funds* or between one or more *with-profits funds* and other purposes, the information required by (1)(b) in aggregate for that amount or part amount, with a supplementary note which:

(a) identifies the *with-profits funds* to which the information relates;

(b) provides the information in lines 11 to 49 of Form 14 separately in respect of each *with-profits fund*; and

(c) without prejudice to 14(2), describes the basis upon which increases or decreases in the value of *non-linked assets* are, or will be, allocated between the *with-profits funds* or between the *with-profits funds* and other purposes.

14. (1) The principles on which the distribution of profits among *policyholder*s and members is based as described in any of the following documents:

(a) the *memorandum*, if any, and the registered rules of the *friendly society*;

(b) *committee* resolutions of the *friendly society*;

(c) any policy or contract issued by the *friendly society*;

(d) any advertisement issued by or on behalf of the *friendly society*;

[11] *With-profits fund* includes subfunds (whether notional or real).

(e) any document required to be issued under the rules in the Conduct of Business Sourcebook or which was required to be issued by any regulatory body recognised under the Financial Services Act 1986; and

(f) any other relevant document.

(2) For each *with-profits fund*, a description of the *friendly society's* policy and (insofar as it may be relevant to *policyholders'* reasonable expectations) its past practice as to:

(a) how the *with-profits fund* is defined, which assets, liabilities, income and expense are allocated to it and how the amounts of such assets, liabilities, income and expense are determined;

(b) whether any non-profits *insurance business*, or any profit on it, is attributed to the *with-profits fund* and, if so, the nature and volume of such business;

(c) how assets within the *with-profits fund* are invested;

(d) the level of surplus or free reserves to be maintained in the *with-profits fund*; and

(e) the relationship between the performance of the *with-profits fund* and discretionary benefits allocated to *policyholders* including:

(i) whether an asset-share methodology, or equivalent methodology, is used or is to be used and, if so, how asset shares are calculated (including whether and how investment income, increases or decreases in the value of investments or other assets, expenses, miscellaneous surpluses and deficits, taxation and other items of income and expense are attributed to asset shares) and how they relate to the benefits actually allocated to *policyholders*;

(ii) an indication of how, under different scenarios as to the performance of the fund, discretionary benefits are to be smoothed from period to period;

(iii) the pattern of allocation for discretionary benefits over the life of a *with-profits policy*, including the balance between annual and terminal bonuses;

(iv) how fairness is maintained between different categories of policy and different categories of *policyholder* and between *policyholders* collectively and the *friendly society* itself; and

(v) any other factors which are material to the allocation of discretionary benefits to *policyholders*; and

(f) the principles followed by the *friendly society* in setting actual proportions of profits distributed to *policyholders* and shareholders.

(3) A description of the methods used to ensure that the aims described in (2) are achieved.

(4) Subject to (5), if different principles or bonus policies apply to different categories of *with-profit policies* issued by the *friendly society*, the information in (1) to (3) must be given in respect of each category.

(5) Categories of *with-profits policies* which, apart from this paragraph would require separate information in accordance with (4) need only be listed under this paragraph, and the information in (1) to (3) need not be supplied, provided that

(a) the aggregate amount of *established surplus* allocated to *policyholder*s in all such categories is less than 10% of the aggregate amount of *established surplus* allocated to all *policyholder*s (as reported at line 46 of Form 58);

(b) the amount of *established surplus* allocated to *policyholder*s in any one such category is less than 5% of the aggregate amount of *established surplus* allocated to all *policyholder*s (as reported at line 46 of Form 58); and

(c) none of the categories was introduced during the period.

15. (1) Particulars of the bonus allocated to each category of contract, including the basis of calculation and the circumstances and the form in which the bonus is payable, together with -

(a) where the rates of bonus allocated depend on the original term of the contract or on the period of years a contract has been in force, specimen rates at 5-year intervals of original term or duration, as the case may be;

(b) where the rates of bonus allocated depend on the age of the life assured, specimen rates at 10-year intervals of age;

(c) where the rates of bonus allocated depend on the date of each previous *premium* payment, specimen rates at 5-year intervals of time since the *premium* was paid, and for *premiums* paid in each of the five years ending with the current year; and

(d) in all other cases, full details of the rates of bonus allocated.

(2) Where the rates of bonus allocated depend on a formula or a series of formulae, then the formula or formulae must be listed instead of the specimen rates. Wherever appropriate, rates of bonus are to be expressed as a fraction of the attribute of the contract to which they are related, e.g. as rates per £1000 of the sum assured and existing bonuses.

(3) Information required under (1) need not be provided for any category of contract -

(a) where no contracts were effected by the *friendly society* during the report period; and

(b) which has been included under the miscellaneous heading in Forms 51, 52, 53 or 54.

16. (1) A statement of practice regarding any bonus payments (in addition to those for which the *friendly society* had become contractually liable) to be made on *claims* arising in the period up to the next investigation, including the basis of calculation and the form in which the bonus is payable, together with -

(a) where the rates of bonus depend on the original term of the contract or on the period of years a contract has been in force, specimen rates at 5-year intervals of original term or duration, as the case may be;

(b) where the rates of bonus depend on the age of the life assured, specimen rates at 10-year intervals of age;

(c) where the rates of bonus depend on the date of each previous *premium* payment, specimen rates at 5-year intervals of time since the *premium* was paid, and for *premiums* paid in each of the five years ending with the current year; and

(d) in all other cases, full details of the rates of bonus.

(2) Where the rates of bonus depend on a formula or a series of formulae, then the formula or formulae must be listed instead of the specimen rates. Wherever appropriate, rates of bonus are to be expressed as a fraction of the attribute of the contract to which they are related, e.g. as rates per £1000 of the sum assured and existing bonuses.

Form 46

17. (1) A statement in Form 46 summarising changes in *long-term insurance business* for all non-group contracts. Information is to be given gross of reinsurance ceded and must be provided separately for United Kingdom and overseas business, taxable and non-taxable business, and in each case for *non-linked contracts* and *linked long-term contracts*. For group contracts only the number of contracts in force at the end of the period is to be given in a note to the appropriate statement.

(2) In Form 46 -

(a) the figures for annual *premiums* must include repeated or recurrent single *premiums* where the level of *premium* is defined;

(b) for *hybrid-linked contract*s, movements between linked and non-linked business must be shown in lines 13 and 27 as appropriate; and

(c) only claim payments which result in the termination of a contract providing cover for other insured events must be shown in line 22.

Form 47

18. (1) Separate statements in the form set out in Form 47 analysing new *long-term insurance business* for United Kingdom business and overseas business, taxable and non-taxable business, and in each case for *non-linked contract*s and *linked long-term contract*s. New business must be shown gross of reinsurance ceded and must include increases to *premiums* on existing policies, and in dealing with such increases, columns 2 and 5 must be left blank.

(2) Single *premium* contracts must consist of those contracts under which there is no expectation of continuing *premiums* being paid at regular intervals and additional single *premiums* paid in respect of existing individual contracts must be included. Regular *premium* contracts must include those contracts under which *premiums* are paid at regular intervals during the policy year, including repeated or recurrent single *premiums* where the level of *premium* is defined.

(3) The information must be shown separately and totalled within each section in the sequence

(i) tax exempt business
(ii) taxable business.

(4) The information must be shown separately and totalled within each section in the sequence -

(i) United Kingdom direct written business
(ii) United Kingdom reinsurance accepted
(iii) overseas direct written business
(iv) overseas reinsurance accepted.

(5) The information is to be analysed and totalled within each type of business in the following sequence -

(i) life assurance and general annuity business
(ii) pension business
(iii) permanent health business
(iv) other business.

(6) The information is to be further analysed and sub-totalled in the following sequence –

(i) *accumulating with-profit policies*
(ii) non-linked *with-profits policies*
(iii) non-linked *non-profit policies*
(iv) *index linked contract*s
(v) other *linked long-term contract*s

and where a policy falls within more than one of the categories, it must be placed in the first appropriate category.

(7) Within each sub-division required under (5) and (6), the appropriate types of insurance from the following list are to be shown separately -

(i) whole life assurance
(ii) endowment assurance
(iii) pure endowment assurance
(iv) term assurance
(v) other assurance (to be specified)
(vi) deferred annuity
(vii) annuity in payment
(viii) other annuity (to be specified)
(ix) permanent health insurance
(x) capital redemption assurance
(xi) annuity certain

(xii) group pension
(xiii) group life
(xiv) group permanent health
(xv) other group (to be specified).

(8) In the case of group contracts, the information to be given is to relate to new contracts and increments under existing contracts. The amount of the increment under an existing contract must be taken to be the increase in the annual *premium* shown in Form 51, 52, 53 or 54 as appropriate, over the previous highest level shown in those Forms. Decreases in any year for an existing contract are to be ignored.

Forms 48 and 49

19. (1) Separate statements of *long-term insurance business assets* (other than assets held to match *property linked* or *index linked liabilities*) are to be given in Forms 48 and 49 in respect of each fund or group of funds for which separate assets are appropriated. The word "Total" or the name of the fund must be shown against the heading "Category of assets".

(2) A brief description of the extent to which any of the amounts recorded in Form 48 would be changed if assets which the *friendly society* had a right or obligation to acquire or dispose of under *derivative contracts* or contracts having the effect of *derivative contracts* outstanding at the end of the period (being in the case of *options*, only those *options* which it would have been prudent to assume would be exercised) had been so acquired or disposed of.

(3) A brief description of how different the information provided pursuant to (2) would have been if such *options* as were outstanding at the end of the period had been exercised in such a way as to change the amounts referred to in (2) to the maximum extent.

(4) A brief description of how different the information provided pursuant to (2) and (3) would have been if, instead of applying to contracts outstanding at the end of the period, they had applied to *derivative contracts* outstanding at such other time during the period as would have changed the amounts referred to in (2) and (3) to the maximum extent.

(5) In Form 48 -

(a) the expected income is to be given as the amounts before deduction of tax which would be received in the next period on the assumption that the assets will be held throughout the period and that the factors which affect income will remain unchanged but account must be taken of any changes in those factors known to have occurred by the *valuation date* (in particular, changes of the type (a), (b), (c) or (d) denoted in 10(5) of Appendix 5). The expected income shown in this Form must be that determined before any adjustments considered necessary because of 10(6) or (7) of Appendix 5;

(b) where a particular asset is required to be taken into account only to a specified extent by the application of the admissibility limits, the expected income from that asset must be included only to the same extent;

(c) the treatment of the expected income from any asset where the payment of interest is in default and the amount of interest involved must be stated in a supplementary note;

(d) where the yield in column 3 for a type of asset shown in line 17, 18 or 19 of the Form (assumed to be zero for assets in line 19) is significantly different from the *weighted average of the yields* for each asset of that type determined in accordance with 10(7) of Appendix 5, then the latter yield figure must be shown in a note to the Form. For this purpose, the *weighted average of the yields* means an average yield weighted by the value of each asset of that type as entered in column 1; and

(e) where an entry at 13.87.1 has resulted from excess *exposure* to a *counterparty* or *excess concentration with a number of counterparties*, the aggregate value of the assets of the *friendly society* giving rise to *exposure* to such *counterparties* must be stated in a supplementary note, together with the expected income from those assets.

(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, paragraphs 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.

(6) In Form 49 -

(a) the gross redemption yield in columns 2 and 5 for each asset must be calculated as in 10(3), (4) and (6) of Appendix 5, leaving out of account any adjustment considered necessary because of 10(7) of Appendix 5. Where a number of assets with different gross redemption yields are held, the weighted average gross redemption yield must be calculated using as weights the value of the asset applicable for entry into columns 1 and 4 respectively;

(b) the value of admissible higher yielding assets to be shown in columns 3 and 6 must be the value of admissible assets as shown in Form 13 where the gross redemption yield on those assets exceeds the gross redemption yield shown in columns 2 and 5 respectively by at least 1.5%; and

(c) where *securities* may be redeemed over a period at the option of the guarantor or the *issuer*, they must be classified on the assumption that they will be redeemed at the latest possible date or, if it is assumed that they will be redeemed at any earlier date, a note must be provided explaining what assumption has been made.

Forms 51, 52, 53 and 54

20. (1) Separate statements in Forms 51, 52, 53 and 54 and separate valuation summaries must be completed in respect of each separate fund or part of a fund for which a surplus is determined under rule 5.1.

(2) Separate totals for column 5 on Form 51 and columns 5, 6 and 7 on Forms 52, 53 and 54 must be shown for sums insured, for annuities per annum and for other measures of benefit.

(3) In relation to Forms 51, 52, 53 and 54 -

(a) information must be shown separately and totalled for each of the following -

(i) United Kingdom business
(ii) Overseas business;

(b) the information must be shown on separate pages and totalled for each type of business in the following sequence -

(i) life assurance and general annuity business - taxable
(ii) life assurance and general annuity business - non-taxable
(iii) pension business
(iv) permanent health business - taxable
(v) permanent health business - non-taxable
(vi) other business;

(c) the information is to be further analysed and sub-totalled for -

(i) direct written business
(ii) reassurance accepted
(iii) reassurance ceded

and totals net of reassurance ceded are also to be shown, provided that where any information to be provided in accordance with (c)(iii) duplicates any information required to be provided in accordance with (d), (e) and (f) in respect of (c)(i) or (ii), then for the purpose of (c)(iii), the total of the reinsurance ceded may be shown in respect of the duplicated information;

(d) the information must be further analysed and sub-totalled within each basis of participation in profits in the following sequence -

(i) *with-profits policies*
(ii) *non-profit policies*;

(e) within each sub-division required under (b), (c) and (d) the appropriate types of insurance from the following list must be shown separately –

(i) whole life assurance
(ii) endowment assurance
(iii) pure endowment assurance
(iv) term assurance
(v) other assurance (to be specified)
(vi) miscellaneous assurance

(vii) deferred annuity
(viii) annuity in payment
(ix) other annuity (to be specified)
(x) miscellaneous annuity
(xi) permanent health insurance
(xii) capital redemption assurance
(xiii) annuity certain,
(xiv) group pension
(xv) group life
(xvi) group permanent health
(xvii) other group (to be specified)

and particulars must also be shown of any subsidiary provisions within *general insurance business class* 1 or 2;

(f) a further sub-division into each separate category of contract is required as follows -

(i) Forms 51 and 52 - each category of contract which is valued on a different valuation basis;

(ii) Form 53 - each category of contract which provides different guarantees or options, and each category of unit link. For the purpose of determining the category of the unit link, all authorised unit trusts may be considered to be one category and all *internal linked fund*s may be considered to be one category;

(iii) Form 54 - each category of contract which provides different guarantees or options, and each category of index. Where the link is to a proportion of an index each different proportion must be treated as a different category;

(g) any contract which consists of a combination of different types of insurance, as described in (e), must be treated as a number of separate contracts each dealing with one of the different types of insurance so combined and the amount by which the total number of contracts shown in column 4 of any valuation summary exceeds the actual number of contracts to which that valuation summary relates must be stated in a supplementary note;

(h) for *linked contract*s with both *property linked* and *index linked benefits*, each benefit must be shown on Form 53 or 54 as appropriate, and a note must be attached describing the manner in which details relating to the number of contracts and the amounts of benefits, *premiums* and other liabilities have been treated. Where the number of contracts is overstated in aggregate, the amount of the overstatement must be stated in a supplementary note;

(i) for *linked contract*s which are also *accumulating with-profits policies*, that part of the benefits which are with-profits must be shown on Form 52 and the remainder of the benefits on Form 53 and/or 54 as appropriate, and a note must be attached describing the manner in which details relating to the number of contracts and the amounts of benefits, *premiums* and other liabilities have been treated. Where the number of contracts is overstated in aggregate, the amount of the overstatement must be stated in a supplementary note;

(j) reserves calculated on an aggregate basis (including reserves for taxation on capital gains, for investment performance guarantees or other special reserves) or adjustments must be shown on separate lines in the *mathematical reserves* column and the particulars of such reserves or adjustments must be specified;

(k) contracts the nature of which or the method of valuation of which makes it impossible or inappropriate to give the information in the exact form required by Forms 51, 52, 53 and 54 must be shown on a separate valuation summary with appropriately modified column headings and the reason for the modification stated in a supplementary note; and

(l) where a net premium method of valuation is not used for contracts reported on Form 51 then, notwithstanding (k)–

(a) columns 7 and 8 must be left blank;

(b) if the method used does not separately identify suitable values to be entered in columns 9 and 10, then the total amount of *mathematical reserves* must be entered in columns 9 and 12, and columns 10 and 11 must be left blank; and

(c) if the method used does separately identify suitable values to be entered in columns 9 and 10, then the entry in column 11 must be the amount entered in column 10 less the amount reserved for future expenses, so that the amount in column 12 equals the amount in column 9 less the amount in column 11.

Forms 55 and 56

21. (1) Separate analyses of unit liabilities in Forms 55 and 56 in respect of each separate fund or part of a fund for which a surplus is determined under rule 5**.**1.

(2) The analyses of unit liabilities must also include liability in respect of any amounts deposited with the *friendly society* under a *deposit back arrangement* which are either unit liabilities in respect of *property linked benefits* or investment liabilities in respect of *index linked benefits*.

(3) In the event that the liability for a specific fund link is wholly reinsured so that entries in columns 8 and 9 of Form 55 are omitted in accordance with (4)(g), if such be the case, a statement to the effect that the provisions of rule 4.11 have been complied with in accordance with any published guidance in relation to the liabilities so reinsured.

(4) In Form 55 -

(a) separate Forms must be prepared in respect of *internal linked fund*s and directly held assets;

(b) separate line must be used for each asset to which benefits are linked and each different type of unit of each *internal linked fund*;

(c) columns 5, 6, 7, 8, 9 and 10 must be sub-totalled for each fund link and totalled for all links;

(d) the aggregate of the total figures shown for column 8 (excluding any amount shown in column 8 pursuant to (h)) and 9 in each Form prepared in respect of a separate fund or part of a fund must equal the appropriate figure shown as the total of column 12 of Form 53;

(e) for links to directly held assets, column 6 must not be used;

(f) for *internal linked fund*s, the total of column 5 must equal the total of column 8 of the summarised Form 43, and the total of column 6 must equal the total of column 3 of the summarised Form 43;

(g) where the liability shown in column 11 of Form 53 for a specific fund link is wholly reinsured with a reinsurer, being an insurer (other than an EEA firm) with permission under the Act to effect or carry out contracts of reinsurance or another *friendly society*, so that entries in columns 8 and 9 of this Form would otherwise be identical, the entries in respect of that fund link must be aggregated and shown on a separate line with the name of the fund link to be shown in column 1 as "wholly reinsured"; and

(h) any amounts included in this analysis in accordance with (2), being unit liabilities in respect of *property linked benefits* deposited with the *friendly society* under a *deposit back arrangement*, must (for each *internal linked fund* or directly held asset), be shown on a separate line with the name of the unit type to be shown in column 2 as "amounts deposited back".

(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.

(5) In Form 56 -

(a) assets and liabilities in column 2 must be listed individually except that where a group of assets of similar type is held which is intended to mirror the performance of an index, a description of the type of assets held may be given. Liabilities must be shown between round brackets and must be fully described;

(b) a separate sub-total of assets and liabilities must be used for each index link and for each combination of assets and liabilities matching the *friendly society*'s liability under any *deposit back arrangement*. Links to different percentages of an index must be treated as different index links;

(c) for each index link, the sub-totalled values in column 2 (excluding those held in respect of any *deposit back arrangement*) must match the appropriate entries in column 12 of Form 54 net of reinsurance ceded;

(d) assets and liabilities arising from *derivative contracts* (or contracts or assets which have the effect of a *derivative contract*) must be shown separately. Amounts must be shown net of *variation margin* in column

2 and gross of *variation margin* in column 3. Rights to recover assets transferred by way of *initial margin* must not be shown on Form 56;

(e) where there is a liability to repay *variation margin* and there are no arrangements for netting of amounts outstanding or the arrangements would not permit the accounting of such amounts on a net basis in accordance with generally accepted accounting practice, it must be so stated in a supplementary note to the Form; and

(f) any provision for adverse changes must be determined in accordance with 4 of Appendix 5 and shown in a supplementary note to the Form.

Form 57

22. (1) Separate statements in Form 57 for each fund or group of funds for which separate assets are appropriated in respect of all *long-term liabilities* except -

(a) the unit liabilities in respect of *property linked benefits* as shown in column 12 of Form 53;

(b) the investment liabilities in respect of *index linked benefits* as shown in column 12 of Form 54;

(c) any reserve in respect of provisions made for tax on unrealised capital gains in arriving at the valuation price of *internal linked fund*s; and

(d) the liabilities in respect of any amounts deposited with the *friendly society* under a *deposit back arrangement* which are either unit liabilities in respect of *property linked benefits* or investment liabilities in respect of *index linked benefits*.

(2) A general description of the method by which the yield on assets other than equity *shares* and land was adjusted in accordance with 10(7) of Appendix 5.

(3) For assets which are equity *shares* or land, a description of the categories into which such assets were divided for the purposes of 10(7) of Appendix 5, together with the method and basis by which the yield on such assets was adjusted in accordance with that rule.

(4) In relation to Form 57 -

(a) a separate Form must be completed in respect of each fund or group of funds for which separate assets are appropriated. The word "Total" or the name of the fund must be shown against the heading "Category of assets";

(b) separate Forms must be prepared for sterling and non-sterling liabilities;

(c) separate Forms are required for with-profit and non-profit contracts within the following types of business -

(i) life assurance and annuity business
(ii) pension business
(iii) permanent health business

(iv) other business;

(d) separate Forms are required for each rate of interest used in the valuation in pursuance of 10(12) of Appendix 5 and may include all contracts valued at the same rate, subject to (b) and (c). Contracts valued at a lower rate of interest but subject to the same apportionment of assets may also be included provided that the rationale for such inclusion is given in a supplementary note. Each of the valuation rates of interest used must be shown against the heading "Rate of interest". The highest valuation rate of interest used must be shown in line 31 or 32 as appropriate;

(e) the Forms specified in (a), (b), (c) and (d) must exclude the liabilities described in (1)(a) to (d) and must cover at least 90% of the remaining *long-term liabilities*. The balance of the remaining *long-term liabilities* must be shown in a separate Form in which lines 31 and 32 must be left blank, and details of the contracts covered by the Form must be given in a supplementary note to the Form. The word "Balance" must be shown against the heading "Rate of interest";

(f) a summary of all the separate Forms must be produced as a separate Form in which lines 31 and 32 must be left blank. The word "Total" must be shown against the heading "Rate of interest";

(g) the risk adjusted yield in columns 2 and 6 for each asset included in column 1 and 5 respectively must be that calculated as in 10(3) to (6) of Appendix 5, taking account of any adjustment considered necessary because of 10(7) of Appendix 5. Where a number of assets with different risk adjusted yields are held, the weighted average risk adjusted yield must be calculated using as weights the value of the asset applicable for entry into columns 2 and 6;

(h) the value of each asset included in column 1 must be the value attributed to it in Form 13 and the assets will be grouped according to Note 1 to Form 48 including adjustments in respect of accrued interest as required by that Note;

(i) where the valuation has been carried out at a net rate or rates of interest the figure in line 31 must be the net rate grossed up at the corresponding effective rate of tax in respect of the highest valuation rate of interest used in the Form;

(j) the mathematical reserve in line 33 must include any increase in reserve resulting from the bonus declaration for the year and must be net of reassurance ceded;

(k) the entries shown at columns 3, 4, 5 and 6 must be those applicable to the scenario described in the answer to 7(8). The entries in column 3 must be the value of the assets shown in column 1 according to the changed assumptions of that scenario. The entries in column 4 must be the value of assets on the changed assumptions for each type of asset notionally re-allocated to cover the mathematical reserve or other liability, net of reinsurance, in the resilience scenario. The entries in column 5 must equal the sum of the entries in columns 3 and 4; and

(l) the entries in line 29, column 1 must equal the entries in line 33, column 1. The entries in line 29, column 5 must not be less than the entries in line 33, column 5.

Form 58

23. (1) Separate statements of the results of the valuation in Form 58 in respect of each separate fund or part of a fund for which a surplus is determined under rule 5.1.

(2) In relation to Form 58 -

(a) where interim, mortuary or terminal bonuses are determined in advance of a valuation and are paid in anticipation of surplus arising at the valuation, the amounts of such bonus actually paid in the period up to *valuation date* must be entered in lines 12 and 41. To the extent that it is the practice of the *friendly society* to make specific provision for the cost of such bonuses payable on future *claims* out of surplus arising at a valuation, such amounts must be treated as amounts allocated to *policyholders* and members at the valuation in question and included in line 44 and the actual amounts paid must not appear at lines 12 and 41 at future valuations. An appropriate note must be appended identifying the various items where necessary; and

(b) where policies have been transferred from one fund to another, the associate transfer of reserves must not be included as a "transfer" in this Form. Where any other transfer has been made, only one positive figure must be inserted in either line 15 or line 34 (depending on the direction of the net transfer) leaving the other line blank.

Forms 60, 11 and 12

24. (1) A statement of the *required minimum margin* for *long-term insurance business* in Form 60 and of the *required margin of solvency* for *Class* IV business and the subsidiary provisions in Forms 11 and 12, in accordance with instruction 8 for completion of Form 60.

(2) If the gross annual office *premiums* for *Class* IV business and the subsidiary provisions in force on the *valuation date* do not exceed 1% of the gross annual office *premiums* in force on that date for all *long-term insurance business*, Forms 11 and 12 need not be completed provided it can be stated that the entry in line 51 of Form 60 exceeds the amount that would be obtained if Forms 11 and 12 were to be completed. In this circumstance, the method of estimating the entry in line 51 of Form 60, together with a statement of the gross annual office *premiums* in force at the *valuation date* in respect of *Class* IV business and the subsidiary provisions, must be given. When completing Forms 11 and 12, the accounting conventions appropriate for *general insurance business* should be followed, but reasonable approximations may be used if they are unlikely to result in an underestimate of the *required margin of solvency*.

Appendix 10

Prudential Reporting Forms

Contents **Page**

FSC1 Return

Long Term Insurance Business: Annual Investigation

FORM FSC 1

Register Number | Year ended 31 December

Name of Society (as registered)

Registered Office

Post Code:

The information provided in this FSC1 Return (Long Term Insurance Business: Annual Investigation) and Auditor's report included herein are the form and contents of an abstract under rule 5.1(2) for use by a *non-directive incorporated friendly society* (other than a *flat rate benefits business friendly society*) in respect of its *long-term insurance business*.

One copy of the Return must be signed by the chief executive, the secretary and one *committee* member of the society (or two members of the *committee* if the offices of chief executive and secretary are held by the same person).

Three copies of this Return (including the original signed copy) must be submitted as soon as possible after 31 December and not later than the following 30 June to:-

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

Return under the Friendly Societies Prudential Rules
Long term insurance business: Annual Investigation Summary sheet of completed forms submitted

Name of Society

Period ended 31 December

Reg No

Where appropriate, certain Forms need to be copied in order to furnish separate details of business in the same format (e.g. the same Form completed separately for tax-exempt or taxable business). Where a Form is completed, please enter the total number of such forms in the corresponding box in the third column below. Where no Form is completed, please enter NIL. Where an additional summary form has been completed, please indicate YES in the fourth column.

Form Number	Details on Form	Number completed	Summary form used
Form 9	Statement of solvency		
Form 13	Analysis of admissible assets		
Form 14	Long term insurance business : Liabilities and margins		
Form 15	Liabilities (other than long term insurance business)		
Form 17	Analysis of derivative contracts		
Form 40	Long term insurance business : Revenue account fund		
Form 40A	Other revenue account fund		
Form 40B	Management fund		
Form 40C	Members surplus and savings accounts		
Form 41	Analysis of premiums and expenses		
Form 42	Analysis of claims		
Form 43	Summarised balance sheet for internal linked funds		
Form 44	Aggregate revenue account for internal linked funds		
Form 45	Supplementary information for internal linked funds		

Return under the Friendly Societies Prudential Rules
Long term insurance business: Annual Investigation
Summary sheet of completed forms submitted

Form Number	Details on Form	Number completed	Summary form used
Form 46	Summary of changes in long term insurance business		
Form 47	Analysis of new long term insurance business		
Form 48	Expected income from admissible assets not held to match liabilities in respect of linked liabilities		
Form 49	Analysis of admissible fixed interest securities not held to match liabilities in respect of linked liabilities		
Form 51	Valuation summary of non-linked contracts (other than accumulating with-profits policies)		
Form 52	Valuation summary of accumulating with-profit policies		
Form 53	Valuation summary of property linked contracts		
Form 54	Valuation summary of index linked contracts		
Form 55	Analysis of unit liabilities and assets in respect of property linked benefits		
Form 56	Analysis of assets and liabilities in respect of index linked benefits		
Form 57	Matching Rectangle		
Form 58	Valuation result and distribution of surplus		
Form 60	Required minimum margin		
Form 61	Subsidiary provisions		
Form 61A	Descriptive section of actuarial investigation		
Form 61B	Actuary’s certificate		
Form 61C	Auditor’s report		
Form 61D	Signatures of officers and actuary		

FSC 1 – FORM 9

Returns under the Friendly Societies Prudential Rules

Statement of solvency

Name of Society

Period ended 31 December

	Reg No	Units £/£000

		1 As at the end of the year	2 As at the end of the previous year
Total available assets (Note 1)	10		
GENERALINSURANCEBUSINESS			
Other than long term insurance business assets allocated towards general insurance business required minimum margin	11		
Implicit items valued in accordance with a waiver under section 148 of the Act	11a		
Required minimum margin for general insurancebusiness	12		
Excess (deficiency) of available assets over the required minimum margin (11+11a – 12)	13		
LONGTERM INSURANCE BUSINESS			
Long term insurance business admissible assets	21		
Other than long term insurance business assets allocated towards long term insurance business required minimum margin	22		
Total mathematical reserves (after distribution of surplus) (Note 2)	23		
Other insurance and non-insurance liabilities (Note 3)	24		
Available assets for long term insurance business required minimummargin (21 + 22 – 23 – 24)	25		
Implicit items valued in accordance with a waiver under section 148 of the Act			
Future profits	31		
Zillmerising	32		
Hidden reserves	33		
Total of available assets and implicit items (25 + 31 + 32 + 33)	34		
Required minimum margin			
Required minimum margin for long term insurance business (Note 4)	41		
Explicit required minimum margin (1/6 x Line 41, or minimum guarantee fund if greater)	42		
Excess (deficiency) of available assets over explicit required minimum margin (25 – 42)	43		
Excess (deficiency) of available assets and implicit items over the required minimum margin (34 – 41)	44		
CONTINGENT LIABILITIES			
Quantifiable contingent liabilities in respect of other than long term insurance business (Note 5)	51		
Quantifiable contingent liabilities in respect of long term insurance business (Note 5)	52		

FSC 1 – Notes to Form 9

1 The entry at line 10 must be equal to the sum of entries at line 89 in Form 13.

2 The entry at line 23 must be equal to the sum of lines 11, 19b and 63 in Form 14.

3 The entry at line 24 must be equal to the sum of lines 12 and 49 in Form 14 less line 19b in Form 14.

4 The entry at line 41 must be equal to the entry at line 69 in Form 60.

5 Particulars to be specified by way of supplementary note.

FSC 1 – FORM 13 (Sheet 1)

Returns under the Friendly Societies Prudential Rules

Analysis of admissible assets

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Category of assets / Total

INVESTMENTS:

Category					1 As at the end of year	2 As at the end of the previous year
Land and Buildings				11		
Investments in associated bodies	UK insurance dependants	Shares		21		
		Debts securities issued by, and loans to, dependants		22		
	Other insurance dependants	Shares		23		
		Debts securities issued by, and loans to, dependants		24		
	Non insurance dependants	Shares		25		
		Debts securities issued by, and loans to, dependants		26		
	Other associated bodies	Shares		27		
		Debts securities issued by, and loans to, associated bodies		28		
TOTAL (11 to 28)				39		
Other financial investments	Equity shares			41		
	Others shares and other variable yield securities			42		
	Holdings in collective investment schemes			43		
	Rights under derivative contracts			44		
	Debt securities and other fixed incomesecurities	Fixed interest	Approved Securities	45		
			Other	46		
		Variable interest	Approved securities	47		
			Other	48		
	Participation in investment pools			49		
	Loans secured by mortgages			50		
	Other loans	Loans to public or local authorities and nationalised industries or undertakings		51		
		Loans secured by policies of insurance issued by the society		52		
		Other		53		
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less		54		
		Withdrawal subject to a time restriction of more than one month		55		
	Other			56		

Returns under the Friendly Societies Prudential Rules

Analysis of admissible assets

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Category of assets/Total

INVESTMENTS AND OTHER ASSETS:

				1 As at the end of the year	**2** As at the end of the previous year
Deposits with ceding undertakings			57		
Assets held to match linked liabilities	Index linked		58		
	Property linked		59		
Reinsurer's share of technical provisions	Provision for unearned premiums		60		
	Claims outstanding		61		
	Provision for unexpired risks		62		
	Other		63		
TOTAL (41 to 63)			69		
Debtors arising out of direct insurance operations	Policyholders		71		
	Intermediaries		72		
Debtors arising out of reinsuance operations	Due from ceding insurers and intermediaries under reinsurance business accepted		74		
	Due from reinsurers and intermediaries under reinsurance contracts ceded		75		
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year	76		
		Due more than 12 months after the financial year	77		
	Other	Due in 12 months or less after the end of the financial year	78		
		Due more than 12 months after the end of the financial year	79		
Tangible assets			80		
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities		81		
	Cash in hand		82		
Other assets (particulars to be specified by way of supplementary note)			83		
Prepayments and accrued income	Accrued interest and rent		84		
	Deferred acquisition costs		85		
	Other prepayments and accrued income		86		

FSC 1 – FORM 13 (Sheet 3)

Returns under the Friendly Societies Prudential Rules
Analysis of admissible assets

Name of Society

Period ended 31 December

Reg No	Units £/£000

Category of assets / Total		1 As at the end of the year	2 As at the end of the previous year
Deductions (under paragraphs 15(2)(b) and 15(3) of Appendix 4) from the aggregate value of assets	87		
Total (71 to 86 less 87)	88		
Grand total of admissible assets (39 + 69 + 88)	89		

RECONCILATION TO ASSET VALUES DETERMINED IN ACCORDANCE WITH ACCOUNTS REGULATIONS (Note 1):

Total admissible assets (as per line 89 above)	91		
Total assets in excess of the admissibility limits of Appendix 4 (as valued in accordance with those rules before applying admissibility limits) (Note 2)	92		
[deleted]	93		
Other differences in the valuation of assets (other than for assets not valued above)	94		
Assets of a type not valued above (as valued in accordance with the Accounts Regulations (Note 3)	95		
Total assets determined in accordance with the Accounts Regulations (91 to 95)	99		
Amounts included in line 89 attributable to debts due from associated bodies, other than those under contracts of insurance or reinsurance	100		

FSC 1 – Notes to Form 13

1 The Accounts Regulations refer to the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

2 The admissibility limits are those applied under Annex B to Appendix 4.

‘Assets of a type not valued above’ refers to assets left out of account under rule 2(3) of Appendix 4.

3 ‘Assets of a type not valued above’ refers to assets left out of account under 2(3) of Appendix 4.

Returns under the Friendly Societies Prudential Rules

Long term insurance business liabilities and margins

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Category of assets/Total

				1 As at the end of the year	2 As at the end of the previous year
Mathematical reserves after distribution of surplus (Note 1)			11		
Cash bonuses which had not been paid to policyholders prior to end of the financial year (Note 2)			12		
Balance of surplus/valuation deficit ((Note 3)			13		
Long term insurance business fund carried forward (11 to 13) (Note 4)			14		
Claims outstanding which had fallen due for payment before the end of the financial year	Gross amount		15		
	Reinsurers share		16		
	Net (15 – 16)		17		
Management Fund – Balance – surplus/ (deficit) (Note 5)			19a		
Members' surplus and savings accounts	Long term insurance business after distribution of surplus (Note 1)		19b		
	Other (Note 6)		19c		
Other Revenue Account funds (Note 7)			19d		
Provisions for other risks and charges	Taxation		21		
	Other		22		
Deposits received from reinsurers			23		
Creditors and other liabilities	Arising out of insurance operations	Direct business	31		
		Reinsurance accepted	32		
		Reinsurance ceded	33		
	Debenture loans	Secured	34		
		Unsecured	35		
	Amounts owed to credit institutions		36		
		Taxation	37		
		Other	38		
Accruals and deferred income			39		
Provision for adverse changes			41		
Total other insurance and non-insurance liabilities (17 to 41)			49		

FSC 1 – FORM 14 (Sheet 2)

Returns under the Friendly Societies Prudential Rules
Long term insurance business liabilities and margins

Name of Society

Period ended 31 December | Reg No | Units £/£000

Category of assets/Total

		1 As at the end of the year	2 As at the end of the previous year
Excess of the value of net admissible assets (Note 8)	51		
Total liabilities and margins	59		
Amount included in line 59 attributable to liabilities to associated bodies, other than those under contracts of insurance or re-insurance	61		
Amount included in line 59 attributable to liabilities in respect of property linked benefits	62		
Amount of any additional mathematical reserves included in line 51 which have been taken into account in the certificate in Form 61B (Note 9)	63		

FSC 1 – Notes to Form 14

1 The entry at lines 11 and 19b must equal the sum of lines 21, 43, 44 and 45 of the corresponding Form or Forms 58.

2 The entry at line 12 must equal the total of line 42 of the corresponding Form or Forms 58.

3 The entry at line 13 must equal the total of line 49 of the corresponding Form or Forms 58.

4 The entry at line 14 must equal the total of line 59 of the corresponding Form or Forms 40.

5 The entry at line 19a must equal the entry at line 49 on Form 40B.

6 The entry at lines 19b and 19c must equal the sum of the entries at line 59 on Form 40C.

7 The entry at line 19d must equal the entry at line 69 on Form 40A.

8 The entry at line 51 must be:

(a) the value of the admissible assets (as included in line 89 of the appropriate Form 13) representing the long term insurance business funds, fund or group of funds to which the Form relates, less

(b) the amount of those funds, fund or group of funds, being the sum of the amounts shown at lines 14 and 49.

9 The entry at line 63 must be the amount specified in paragraphs (a)(ii) of the certificate in Form 61B, but only insofar as it relates to the fund, funds or group of funds to which this Form 14 relates.

Returns under the Friendly Societies Prudential Rules

Liabilities (Other than long term insurance business)

Name of Society

Period ended 31 December

Reg No		Units £/£000

Class of Business (as in Part III of Chapter 7)

				Line	1 As at the end of the year	2 As at the end of the previous year
Technical provisions (gross amount)	Provision for unearned premiums (Note)			11		
	Claims outstanding			12		
	Provision for unexpired risks			13		
	Other			16		
	Total (11 to 16)			19		
Provisions	Taxation			21		
	Other			22		
Deposits received from reinsurers				31		
Creditors	Arising out of insurance operations	Direct business		41		
		Reinsurance accepted		42		
		Reinsurance ceded		43		
	Debenture loans	Secured		44		
		Unsecured		45		
	Amounts owed to credit institutions			46		
	Other creditors	Taxation		47		
		Other		49		
Accruals and deferred income				51		
Total (19 to 51)				59		
Provision for adverse changes				61		
Total (59 + 61)				69		
Amounts included in line 69 attributable to liabilities to associated bodies other than those under contracts of insurance or reinsurance				71		

NOTE — The amounts shown in lines 11 to 13 and 16 must be stated gross of the reinsurer's share.

Returns under the Friendly Societies Prudential Rules

Analysis of derivative contracts (other than those relating to property linked contracts or index linked benefits)

Name of Society

Period ended 31 December 19

	Reg No	Units £/£000

Business: Long Term/Other than long term

Category of assets/Total

			As at the end of the year		As at the end of the previous year	
			Assets 1	Liabilities 2	Assets 3	Liabilities 4
Derivative Contracts						
Futures Contracts	Fixed-interest securities	11				
	Equity shares	12				
	Land	13				
	Currencies	14				
	Other	15				
Options	Fixed-interest securities	21				
	Equity shares	22				
	Land	23				
	Currencies	24				
	Other	25				
Contracts for Differences	Fixed-interest securities	31				
	Equity shares	32				
	Land	33				
	Currencies	34				
	Other	35				
Adjustments for variation margin		41				
Total (11 to 41) (Note)		49				

NOTE

The entry at line 49.1 must be included at Form 13.44.1 and the entry at line 49.2 must be included at Form 14.38.1 or 15.49.1 as appropriate.

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Revenue account fund

Name of Society

	Reg No	Units £/£000	OB/IB	No of fund/ Summary	No of part of fund
Period ended 31 December					

Name of Fund/Summary

ITEMS TO BE SHOWN NET OF REINSURANCE CEDED

Item		1 This year	2 Previous year
Earned premiums (Note 1)	11		
Investment income receivable before deduction of tax	12		
Increase (decrease) in the value of non-linked assets brought into account	13		
Increase (decrease) in the value of linked assets	14		
Amounts transferred from other revenue account funds (Note 2)	14a		
Other income (Note 2)	15		
Total income (11 to 15)	19		
Claims incurred (Note 1)	21		
Amounts transferred to Management Fund (Note 2)	22		
Interest payable before deduction of tax	23		
Taxation	24		
Other expenditure (Note 2)	25		
Amounts transferred to other Revenue Account Funds (Note 2)	26		
Total expenditure (21 to 26)	29		
Increase (decrease) in fund in year (19 – 29)	39		
Fund brought forward	49		
Fund carried forward (39 + 49)	59		

NOTES

1. The entry at 40.11.1 must equal the sum of 41.19.3 + 41.29.3
   The entry at 40.21.1 must equal 42.59.3
2. Particulars to be specified by way of note.

Returns under the Friendly Societies Prudential Rules

Other revenue account fund

Name of Society

	Reg No	Units £/£000	OB/IB	No of fund/ Summary	No of part of fund
Period ended 31 December					

Name of Fund/Summary

			1 This year	2 Previous year
Amounts receivable (Note)		11		
Investment income	Income	14		
	Value re-adjustments on investments	15		
	Gains on the realisation of investments	16		
Investment charges	Investment management charges, including interest	17		
	Value re-adjustments on investments	18		
	Loss on the realisation of investments	19		
Increase (decrease) in the value of assets brought into account		21		
Amounts transferred from other revenue account funds (Note)		22		
Total income (11 to 22)		29		
Amounts payable (Note)		31		
Amounts transferred to Management Fund		32		
Taxation		33		
Amounts transferred to other revenue account funds (Note)		34		
Other expenditure (Note)		35		
Total expenditure and transfers (31 to 35)		39		
Increase (decrease) in fund in year (29 – 39)		49		
Fund brought forward		59		
Fund carried forward (49 + 59)		69		

NOTE Particulars to be specified by way of note.

FSC 1 – FORM 40B

Returns under the Friendly Societies Prudential Rules
Management fund

Name of Society

		Reg No	Units £/£000	OB/IB
Period ended 31 December				

		1 This year	2 Previous year
Amounts transferred from Revenue Account Funds (Note 1)	11		
Investment Income	12		
Other Income (Note 1)	13		
Total Income (11 to 13)	19		
Expenses payable (Note 2)	21		
Amounts transferred to Revenue Account Funds (Note 1)	22		
Increase (decrease) in fund in year (19 – 21 – 22)	29		
Fund brought forward	39		
Fund carried forward (29 + 39)	49		

NOTES

1. Particulars to be specified by way of note
2. The entry at 40B.21.1 must equal 41.49.3

FSC 1 – FORM 40C

Returns under the Friendly Societies Prudential Rules

Member surplus and savings accounts

Name of Society

Period ended 31 December

	Reg No	Units £/£000

		1 This year	**2** Previous year
Surplus/Bonus Credited to members (other than transfers shown in Line 13)	11		
Contributions/Deposits	12		
Amounts transferred from Permanent Health Long Term Insurance Benefit Funds	13		
Amounts transferred from other Long Term Insurance Benefit Funds (Note 1)	14		
Amounts transferred from other Revenue Account Funds (Note 1)	15		
Other Income (Note 1)	16		
Total Income (11 to 16)	19		
Amounts withdrawn by members	21		
Benefits charged and amounts transferred to other Long Term Insurance Benefit Funds (Note 1)	22		
Amounts transferred to other revenue account funds (Note 1)	23		
Other expenditure	24		
Total expenditure and transfers (21 to 24)	29		
Increase (decrease) in accounts in year (19 – 29)	39		
Amounts credited to members brought forward	49		
Amounts credited to members carried forward (39 + 49)	59		

NOTE

1. Particulars to be specified by way of note.

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Analysis of premiums and expenses

Name of Society

Period ended 31 December

	Reg No	Units £/£000	OB/IB	No of fund/ Summary	No of part of fund

Name of Fund/ Summary

				1 Gross	2 Payable to or recoverable from reinsurers	3 Net of reinsurance
Earned premiums in the financial year	Life Assurance and General Annuity contracts	Single Premium	11			
		Regular Premium	12			
	Pension Business contracts	Single Premium	13			
		Regular Premium	14			
	Permanent Health Contracts	Single Premium	15			
		Regular Premium	16			
	Other Contracts	Single Premium	17			
		Regular Premium	18			
	Total Premiums	Single Premium	19			
		Regular Premium	29			
	Total premiums at line 19 and 29 attributable to	UK Contracts	31			
		Overseas Contracts	32			
Expenses payable in the financial year	Commission payable in connection with acquisition of business		41			
	Other commission payable		42			
	Management expenses in connection with acquisition of business		43			
	Management expenses in connection with maintenance of business		44			
	Other management expenses		45			
	Total Expenses (41 to 45)		49			
	Total expenses at line 49 attributable to	UK Contracts	51			
		Overseas Contracts	52			

NOTES

The entries at lines 11,13, 15, 17 and 19 must include all single premium amounts where there is no expectation of continuing premiums being paid at regular intervals.

The entries at lines 12, 14, 16, 18 and 29 must include premiums payable at regular intervals during the policy year, including repeated or recurrent single premiums where the level of premium is defined.

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Analysis of claims

Name of Society

Period ended 31 December

	Reg No	Units £/£000	OB/IB	No of fund/ Summary	No of part of fund

Name of Fund/Summary

CLAIMS INCURRED IN THE YEAR

		Line	1 Gross	2 Recoverable from reinsurers	3 Net of reinsurance (1-2)
Life Assurance and Annuity Contracts	On death	11			
	By way of lump sums on maturity	12			
	By way of annuity payments	13			
	By way of payments arising from other insured events	14			
	On surrender or partial surrender	15			
	Total life assurance and annuity claims (11 to 15)	19			
Pension Business Contracts	On death	21			
	By way of lump sums on vesting	22			
	By way of vested annuity payments	23			
	On surrender or partial surrender	24			
	Total pension business claims (21 to 24)	29			
Permanent Health Contracts	By way of lump sums	31			
	By way of periodical payments	32			
	Total permanent health claims (31 + 32)	39			
Other Contracts (Note 1)	By way of lump sums	41			
	By way of periodical payments	42			
	Total other contracts claims (41 + 42)	49			
Total claims (19 + 29 + 39 + 49)		59			
Total claims at line 59 attributable to:-	UK Contracts	61			
	Overseas Contracts	62			

NOTES

1. Particulars to be specified by way of note.
2. In the case of industrial assurance, claims incurred on survival in respect of periodical endowment benefits must be shown in line 15

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Summarised balance sheet for internal linked funds

Name of Society

Period ended 31 December

	Reg No	Units £/£000	OB/IB	No of fund/ Summary	No of part of fund

Name of fund/summary

Name of fund 1	Directly held assets 2	Investment in other internal linked funds of the society 3	Total assets (2 + 3) 4	Provision for tax on unrealised capital gains 5	Secured and unsecured loans 6	Other liabilities 7	Net asset value (4 – 5 – 6 – 7) 8
Total							

NOTE The total of the net asset value in column 8 less the total of column 3 must equal line 59 of Form 44.

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Aggregate revenue account for internal linked funds

Name of Society

Period ended 31 December

	Reg No	Units £/£000	OB/IB	No of fund/ Summary	No of part of fund

Name of fund/Summary

Value of total creation of units	11	
Investment income attributable to the funds before deduction of tax	12	
Increase (decrease) in the value of investments in financial year	13	
Other income (Note 1)	14	
Total income (11 to 14)	19	
Value of total cancellation of units	21	
Charges for management	22	
Charges in respect of tax on investment income	23	
Taxation on realised capital gains	24	
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25	
Other expenditure (Note 1)	26	
Total expenditure (21 to 26)	29	
Increase (decrease) in funds in the year (19 – 29)	39	
Internal linked funds brought forward	49	
Internal linked funds carried forward	59	

NOTES

1. Particulars to be specified by way of note.

FSC 1 – FORM 45

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Supplementary information for internal linked funds

Name of Society

	Reg No	Units £/£000	OB/IB	No of fund	No of part of fund
Period ended 31 December					

Name of fund

Name of fund 1	Amount of taxable unrealised capital gain or loss 2	Percentage provision for tax on unrealised capital gains 3	Percentage provision for tax on realised capital gains 4	Liquidity percentage 5	Valuation price per unit 6

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Summary of changes in long term insurance business

Name of Society

Period ended 31 December

	Reg No	OB/IB	UK/ Overseas	Taxable/ Non Taxable	Linked Non-Linked

		Life Assurance and General Annuity		Pensions Business		Permanent Health		Other Business (Note 1)	
		1. No. of Contracts	2. Annual Premiums £	3. No. of Contracts	4. Annual Premiums £	5. No. of Contracts	6. Annual Premiums £	7. No. of Contracts	8. Annual Premiums £
In force at beginning of year	11								
New business and increases	12								
Net transfers and other alterations "on"	13								
Total "on" (12 + 13)	19								
Deaths	21								
Other insured events	22								
Maturities	23								
Surrenders	24								
Forfeitures	25								
Conversions to paid-up policies for reduced benefits	26								
Net transfers, expiries and other alterations "off"	27								
Total "off" (21 to 27)	29								
In force at end of year (11 + 19 – 29)	39								

NOTE

1. Specify particulars of other business contracts included in columns 7 and 8.

FSC 1 – FORM 47

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Analysis of new long term insurance business

Name of Society

Period ended 31 December

	Reg No	Units £/£000	OB/IB	UK/Overseas	Taxable/Non Taxable

TYPE OF INSURANCE	Single Premium Contracts			Regular Premium Contracts		
	No of Contracts	Premiums	Sum assured, annuities per annum or other measure of benefits	No of Contracts	Annual Premiums	Sums assured, annuities per annum or other measure of benefits
1	2	3	4	5	6	7

FSC 1 – FORM 48

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Expected income from admissible assets not held to match liabilities in respect of linked benefits

Name of Society

Period ended 31 December

Reg No	Units £/£000

Category of assets/Total

TYPE OF ASSETS

Type of assets		Line	1 Value of admissible assets as shown in Form 13	2 Expected income from admissible assets	3 Yield %
Land and Buildings		11			
Fixed interest Securities	Approved securities	12			
	Other	13			
Variable interest and variable yield securities (excluding items shown in line 16)	Approved securities	14			
	Other	15			
Equity shares and holdings in collective investment schemes		16			
Loans secured by mortgages		17			
All other assets	Producing income	18			
	Not producing income	19			
Total (11 to 19)		29			

FSC 1 – Notes to Forms 48 and 49

1. Where Form 13 is for the same fund or group of funds:-

- the entry at 48.11.1 must be equal to 13.11.1.
- the entry at 48.12.1 must be equal to 13.45.1 and the appropriate part of 13.84.1.
- the entry 48.13.1 must be equal to 13.46.1 and the appropriate part of 13.84.1.
- the entry 48.14.1 must be equal to 13.47.1 and the appropriate part of 13.84.1.
- the entry at 48.15.1 must be equal to 13.42.1 + 13.48.1 and the appropriate part of 13.84.1.
- the entry at 48.16.1 must be equal to 13.41.1 + 13.43.1.
- the entry at 48.17.1 must be equal to 13.50.1 and the appropriate part of 13.84.1.
- the entry at 48.29.1 must be equal to 13.87.1 + 13.89.1 – 13.58.1 – 13.59.1.

The appropriate part of the entry at 13.84.1 to be included in lines 12 to 15 is that part which represents accrued interest on assets included in the relevant line of Form 48. The amounts so included shall be stated in a supplementary note to Form 48.

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 paragraphs 10(3) to (6A) in Appendix 5.
- The entry at 48.29.3 must be the weighted average of the yields in column 3 of Form 48, where the weight given to each asset is the value of that asset applicable for entry into column 1; assets not producing income must be included in the calculation.
- The entries at 49.19.1, 49.19.2, 49.19.4, 49.19.5, 49.29.1, 49.29.2, 49.29.4 and 49.29.5 must be equal to the values at 48.12.1, 48.12.3, 48.14.1, 48.14.3, 48.13.1, 48.13.3, 48.15.1 and 48.15.3 respectively.
- The entries at 49.19.2, 49.19.5, 49.29.2 and 49.29.5 must be the weighted average of the yields in columns 2 and 5 as appropriate for lines 11 to 18 and 21 to 28 respectively, where the weight given to each yield is the value shown in columns 1 and 4 respectively.

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Analysis of admissible fixed interest and variable yield securities not held to match liabilities in respect of linked benefits

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Category of assets/Total

Redemption Period in Years			1 Value of admissible assets as shown in Form 13	2 Gross redemption yield %	3 Value of admissible higher yielding assets		4 Value of admissible assets as shown in Form 13	5 Gross redemption yield %	6 Value of admissible higher yielding assets
One year or less	11	Fixed interest approved securities				Variable interest and variable yield approved securities excluding equities			
More than one year but not more than 5 years	12								
More than 5 years but not more than 10 years	13								
More than 10 years but not more than 15 years	14								
More than 15 years but not more than 20 years	15								
More than 20 years but not more than 25 years	16								
More than 25 years	17								
Irredeemable	18								
Total (11 to 18)	19								
One year or less	21	Other fixed interest securities				Other variable interest and variable yield securities excluding equities			
More than 1 year but not more than 5 years	22								
More than 5 years but not more than 10 years	23								
More than 10 years but not more than 15 years	24								
More than 15 years but not more than 20 years	25								
More than 20 years but not more than 25 years	26								
More than 25 years	27								
Irredeemable	28								
Total (21 to 28)	29								

FSC 1 – FORM 51

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Valuation summary of non-linked contracts (other than accumulating with-profit policies)

Name of Society

Period ended 31 December

	Reg No	Units £/£000	UK/Overseas	Taxable/Non Taxable

Name of Fund

Type of business:

Type of insurance or name of contract	VALUATION BASIS		Number of contracts	Amount of sums assured or annuities per annum, including vested reversionary bonuses	AMOUNT OF ANNUAL PREMIUMS		Proportion of office premiums reserved for expenses and profits	Value of sums assured or annuities per annum, including vested reversionary bonuses	VALUE OF ANNUAL PREMIUMS		Amount of Mathematical Reserves
	Rate of interest	Mortality or morbidity table			Office Premiums	Net premiums			Office premiums	Net premiums	
1	2	3	4	5	6	7	8	9	10	11	12

FSC 1 – FORM 52

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Valuation summary of accumulating with-profit policies

Name of Society

Period ended 31 December

Reg No	Units £/£000	UK/Overseas	Taxable/Non Taxable

Name of Fund

Type of business:

Type of insurance or name of contract	VALUATION BASIS		Number of contracts	Amount of sums assured or annuities per annum including vested reversionary bonuses			AMOUNT OF ANNUAL PREMIUMS		Proportion of office premiums reserved for expenses and profits	Liability in respect of current benefits including vested bonuses		OTHER LIABILITIES		Amount of Mathematical Reserves
	Rate of interest	Mortality or morbidity table		Guaranteed on death	Current on death	Guaranteed on maturity	Office premiums	Net premiums		Current benefit value	Discounted value	Mortality and expenses	Options & guarantees other than investment performance guarantees	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**

FSC 1 – FORM 53

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Valuation summary of property linked contracts

Name of Society

	Reg No	Units £/£000	UK/Overseas	Taxable/Non Taxable
Period ended 31 December				

Name of Fund

Type of business:

Name of Contract	VALUATION BASIS		Number of contracts	Amount of sums assured or annuities per annum including vested reversionary bonuses			AMOUNT OF ANNUAL PREMIUMS		Category of unit link	UNIT LIABILITY		OTHER LIABILITIES		Amount of Mathematical Reserves
	Rate of interest	Mortality or morbidity table		Guaranteed on death	Current on death/ current payableper annum	Guaranteed on maturity	Office premiums	Net premiums		Current benefit value	Discounted value	Mortality and expenses	Options & guarantees other than investment performance guarantees	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

FSC 1 – FORM 54

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Valuation summary of index linked contracts

Name of Society

Period ended 31 December

Reg No	Units £/£000	UK/Overseas	Taxable/Non Taxable

Name of Fund

Type of business:

Name of Contract	VALUATION BASIS		Number of contracts	Amount of sums assured or annuities per annum including vested reversionary bonuses			AMOUNT OF ANNUAL PREMIUMS		Name of index link	INVESTMENT LIABILITY		OTHER LIABILITIES		Amount of Mathematical Reserves
	Rate of interest	Mortality or morbidity table		Guaranteed on death	Current on death/ current payableper annum	Guaranteed on maturity	Office premiums	Net premiums		Current benefit value	Discounted value	Mortality and expenses	Options & guarantees other than investment performance guarantees	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

FSC 1 – FORM 55

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Analysis of units in internal linked funds and direct holdings of assets matching liabilities in respect of property linked benefits

Name of Society

Period ended 31 December

	Reg No	Units £/£000	UK/ Overseas	Internal Fund/Direct Assets

Name of Fund

Name of fund link or directly held asset 1	Name of unit type 2	Valuation price per unit or asset 3	Total actual number of units in force or directlyheld assets 4	Value of total actual units in force or directly held assets 5	Value of actual units held by other internal linked funds 6	Value of directly held assets and actual units in force excluding those held by other internal linked funds (5-6) 7	Value of units or directly held assets deemed allocated to contracts: Gross 8	Value of units or directly held assets deemed allocated to contracts: Reinsurance ceded 9	Value of surplus units or directly held assets (7 – 8 + 9) 10

FSC 1 – FORM 56

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Analysis of assets and liabilities matching investment liabilities in respect of index linked benefits

Name of Society

	Reg No	Units £/£000	UK/Overseas
Period ended 31 December			

Name of fund

TYPE OF ASSETS AND LIABILITIES	Name of index link 1	Value of assets or liabilities 2	Gross derivative value 3
Total assets			
Total liabilities			
Net total assets			

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Matching rectangle

Name of Society

		Reg No	Units £/£000	UK/ Overseas	With-profits/ Non profit	Sterling/Non sterling	Rate of interest
Period ended 31 December							

Category of assets/Total

Type of business

Type of asset notionally allocated			The valuation		The resilience scenario				
					Value of assets notionally allocated				
			Value of asset notionally allocated 1	Risk adjusted yield % 2	On original allocation 3	Increase or decrease 4	Total under resilience scenario 5	Risk adjusted yield % 6
Land and Buildings		11						
Fixed interest securities	Approved securities	12						
	Other	13						
Variable interest and variable yield securities (excluding items shown at line 16)	Approved securities	14						
	Other	15						
Equity shares and holdings in collective investment schemes		16						
Loans secured by mortgages		17						
All other assets	Producing income	18						
	Not producing income	19						
Total (11 to 19)		29						
Gross valuation interest rate %		31						
Net valuation interest rate %		32						
Mathematical reserve or other liability, net of reinsurance		33						

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Valuation result and distribution of surplus

Name of Society

	Reg No	Units £/£000
Period ended 31 December		

Name of Fund/Summary

Valuation result	Fund carried forward (Note 1)	11	
	Bonus payments made to policyholders in anticipation of a surplus	12	
	Net transfer to other funds (Note 2)	15	
	Total (11 + 12 + 15)	16	
	Mathematical reserves for accumulating with profit contracts	17	
	Mathematical reserves for non-linked contracts (Note 4)	18	
	Mathematical reserves for property linked contracts	19	
	Mathematical reserves for index linked contracts	20	
	Total (17 to 20)	21	
	Surplus including contingency and other reserves towards the solvency margin (Deficiency) (16 – 21)	29	
Composition of surplus	Balance of surplus brought forward unappropriated form last valuation	31	
	Net transfer from other funds (Note 2)	34	
	Surplus arising since the last valuation	35	
	Total (31 + 34 + 5) (= 29)	39	
Distribution of surplus	Bonus payments made to policyholders in anticipation of a surplus	41	
	Allocated to policyholders by way of: Cash bonuses	42	
	Reversionarybonuses	43	
	Other bonuses	44	
	Premiumreductions	45	
	Total allocated to policyholders (41 to 45)	46	
	Transfer to other funds (Note 2 + 5)	47	
	Total distributed surplus (46 + 47)	48	
	Balance of surplus including contingency and other reserves held t owards the solvency margin carried forward unappropriated (Note 3)	49	
	Total (48 + 49) (= 29)	59	

NOTES

1. The entry at line 11 must be equal to the entry at line 59 in the revenue account for the relevant fund (Form 40).
2. Particulars to be specified by way of note.
3. Where the entry at line 21 exceeds the entry at line 16, the difference must be included at line 13 of Form 14.
4. For each fund, the entry at line 18 must be equal the total liabilities in column 12 of Form 51 and the entries at lines 17, 19 and 20 must equal the total liabilities in column 15 of Forms 52, 53 and 54 respectively.
5. The figure at line 47 must equal the figure at line 15.

FSC 1 – FORM 60 (Sheet 1)

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Required minimum margin

Name of Society

Period ended 31 December

Reg No	Units £/£000

Class			Classes I & II	Class III business with relevant factor of				Class IV	Class VI	Class VII business with relevant factor of				Unallocated additional mathematical reserves with relevant factor of		Total for all classes	
Relevant factor (Note 1)			4% 1	4% 2	1% 3	Total 5	1% 8	4% 6	4% 6A	4% 7		Total 10		4% 11	1% 12	This year 13	Previous year 14
Mathematical reserves before deduction for reinsurance: (Note 5)	Reserves before distribution of surplus	11															
	Reserves for bonus allocated to policyholders	12															
	Reserves after distribution of surplus	13															
Mathematical reserves after deduction for reinsurance: (Note 5)	Reserves before distribution of surplus	14															
	Reserves for bonus allocated to policyholders	15															
	Reserves after distribution of surplus	16															
Ratio of 16 to 13, or 0.85 if greater		17															
Required margin of solvency – first result – (Note 2)		19															
Required margin of solvency based on administrative expenses (note 7)		20															
Non negative capital at risk before reinsurance: (Note 3)	Temporary assurances with required margin of solvency of .001	21															
	Temporary assurances with required margin of solvency of .0015	22															
	All other contracts with required margin of solvency of .003	23															
Total for (21 to 23)		29															

FSC 1 – FORM 60 (Sheet 2)

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Required minimum margin

Name of Society

	Reg No	Units £/£000
Period ended 31 December		

Class		Classes I & II		Class III business with relevant factor of			Class IV	Class VI	Class VII business with relevant factor of				Unallocated additional mathematical reserves with relevant factor of		Total for all classes	
Relevant factor (Note 1)		4% 1	4% 2	1% 3	Total 5		4% 6	4% 6A	4% 7	1% 8	Total 10	4% 11		1% 12	This year 13	Previous year 14
Non negative capital at risk after reinsurance (all contracts) (Note 3)	31															
Ratio of line 31 to line 29, or 0.50 if greater	32															
Required margin of solvency second result (Note 4)	39															
Sum of first and second results = (19 + 20 + 39)	49															
Required margin of solvency for subsidiary provisions and the additional margin for class IV business (Notes 6 and 8)	51															
Total required margin of solvency for long term business = 49 + 51	59															
Minimum guarantee fund	61															
Required minimum margin (greater of 59 and 61)	69															

NOTES

1. The appropriate factor specified in rule 1(2)(a) and 2(3) and (4) of Appendix 1.
2. Line 19 equals line 13 x Line 17 x relevant factor.
3. Capital at risk must be shown after distribution of surplus.
4. Line 39 equals line 32 x [line 21 x .001 + line 22 x .0015 + line 23 x .003] for Classes I and II or line 32 x line 29 x 0.003 for classes III and VII.
5. Any additional mathematical reserves shown at line 63 to Form 14 must be included in this Form (applied to all relevant classes)
6. For Class V business, the amount of the required margin of solvency must be stated in a note to the form and must be included in line 51
7. For class III and VII business, the entry at line 20 is 25% of the financial year's net administrative expenses pertaining to business for which the friendly society bears no investment risk and the allocation to cover management expenses is not fixed for a period exceeding five years. (Appendix 1 para 2(4)).
8. For class IV business and subsidiary provisions taken together, Forms 11 and 12 in Appendix 10 must be completed and appended to Form 60 (unless the Forms would be blank or paragraph 24(2) of Appendix 9 permits the friendly society not to complete the Forms). Lines 44 and 49 of Form 12 should be left blank. For the purposes of these Forms "health insurance" is health insurance based on actuarial principles that meets the conditions set out in paragraph 7 of Appendix 2. The entry at line 51 of Form 60 must equal the entry at 51.43 of Form 12 plus the amount to be included for class V business (see note 6).

Returns under the Friendly Societies Prudential Rules

Descriptive section of actuarial investigation

Name of Society:

Reg No

1. The date to which the investigation relates is
2. The date to which the latest previous investigation relates is

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Annual Investigation Certificate and Signatures

Name of Society

Reg No

Period ended 31 December

We certify that:

(a) (i) the information in this Return complies with the rules in IPRU(FSOC) and proper records have been kept by the society adequate for the purpose of the valuation of the liabilities of its long term insurance business;

(ii) the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 together, if the case so requires, with £…………..….. (being part of the excess of the value of the admissible assets representing the long term insurance business funds over the amount of those funds shown in Form 14) constitute proper provision at the end of the financial year for the long term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding liabilities which have fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of any investigation as at that date into the financial condition of the long term insurance business; and

(iii) for the purpose of sub-paragraph (ii) above the liabilities have been assessed in accordance with Appendix 5 in the context of assets valued in accordance with Appendix 4, as shown in Form 13;

(iv) premiums for contracts entered into during the financial year and income earned thereon are sufficient, on reasonable actuarial assumptions, and taking into account the other financial resources of the society that are available for the purpose, to enable the society to meet its commitments in respect of those contracts, and, in particular, to establish adequate mathematical reserves; and

(v) In preparing this Return, we have taken and paid due regard to advice from every *actuary* appointed by the society to perform the *actuarial function* in accordance with *SUP* 4.3.13R

(b) The amount of the required minimum margin of solvency applicable to the society's long term insurance business immediately following the end of the financial year (including any amounts resulting from any increase in liabilities arising from a distribution of surplus as a result of the investigation into the financial condition of the long term insurance business) is £…………..…..

(c) We have the following additional comments (use extra pages).

We confirm also that the society consents to a copy of this Return being placed on the public file of the society.

Chief Executive

Name (Block Capitals)	

Secretary

Name (Block Capitals)	

Member of Committee

Name (Block Capitals)	

Additional Committee member if the offices of the Chief Executive and Secretary are held by the same person.

Name (Block Capitals)	

FSC 1 – FORM 61C

Returns under the Friendly Societies Prudential Rules

Long term insurance business: Annual Investigation – Auditor's Report

Name of Society

Period ended 31 December

Reg No

Auditor's Report

Dat

Signature

Name:	Address:
Qualification:	

FSC 2 - RETURN

FSC2 Return

Periodic Investigation: Long Term and General Insurance Business

FORM FSC 2

Register Number

Period ended 31 December

Name of Society (as registered)

Registered Office

Post Code:

The information provided in this FSC2 Return (Periodic Investigation: Long Term and General Insurance Business) and the Actuary's certificate included herein are the form and contents of an abstract under rule 5.2(2) for use by an non-directive unincorporated friendly society (other than a flat rate benefits business friendly society) in respect of its insurance business.

One copy of the Return must be signed by the chief executive, the secretary and one committee member of the society (or two members of the committee if the offices of chief executive and secretary are held by the same person).

Three copies of this Return (including the original signed copy) must be submitted as soon as possible after 31 December and not later than 30 June:-

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

Returns under the Friendly Societies Prudential Rules

Statement of solvency

Name of Society

Period ended 31 December

	Reg No	Units £/£000

		1 As at the end of the period	2 As at the end of the previous period
Total available assets	10		
GENERAL INSURANCE BUSINESS			
Other than long term insurance business assets allocated towards general insurance business required minimum margin	11		
Implicit items valued in accordance with a waiver under section 148 of the Act	11a		
Required minimum margin for general insurance business	12		
Excess (deficiency) of available assets over the required minimum margin (11+11a – 12)	13		
LONG TERM INSURANCE BUSINESS			
Long term insurance business admissible assets	21		
Other than long term insurance business assets allocated towards long term insurance business required minimum margin	22		
Total mathematical reserves (after distribution of surplus)	23		
Other insurance and non-insurance liabilities	24		
Available assets for long term insurance business required minimum margin (21 + 22 – 23 – 24)	25		
Implicit items valued in accordance with a waiver under section 148 of the Act			
Future profits	31		
Zillmerising	32		
Hidden reserves	33		
Total of available assets and implicit items (25 + 31 + 32 + 33)	34		
Required minimum margin			
Required minimum margin for long term insurance business	41		
Explicit required minimum margin (1/6 x Line 41, or minimum guarantee fund if greater)	42		
Excess (deficiency) of available assets over explicit required minimum margin (25 – 42)	43		
Excess (deficiency) of available assets and implicit items over the required minimum margin (34 – 41)	44		
CONTINGENT LIABILITIES			
Quantifiable contingent liabilities in respect of other than long term insurance business	51		
Quantifiable contingent liabilities in respect of long term insurance business	52		

FSC 2 – FORM 9A

Returns under the Friendly Societies Prudential Rules
Descriptive Section

Name of Society:

Reg No

1. The date to which the investigation relates is
2. The date to which the latest previous investigation relates is
3. A synopsis of the report by the appropriate actuary on his investigation into the financial condition of the society in respect of its insurance business, including
   - a statement of the assets and liabilities of the society;
   - information and comments on the
     - changes in membership of the society,
     - benefit entitlements that have been valued,
     - mortality, sickness and claims experience of the society,
     - investment returns achieved by the society,
     - suitability of the assets held by the society,
     - provisions made for future expenses,
     - reserves set aside for activities of the society not covered by the valuation,
     - scope for enhancement of benefits; and
   - the actuary's assessment of the financial viability of the society and, where the assessment indicates that changes are necessary or desirable, the options open to the *committee* along with the advantages and disadvantages of each course of action and the likely consequences of taking no action.

Returns under the Friendly Societies Prudential Rules

Actuary's Certificate

Name of Society

(iv) I have had regard to the following standards and guidance adopted o
Actuarial Standards and, in so far as they are relevant to my investigation for t
certificate, I have complied with them.

Period ended 31 December

Reg No

I certify that:

(a) (i) in my opinion, proper records have been kept by the society adequate for the purpose of the valuation of the liabilities of its insurance business;

(ii) the contents of the synopsis in Form 9A correctly reflect the results of my investigation into the financial condition of the society in respect of its insurance business;

(iii) no matters, except as described in Form 9A, have come to my attention during the course of my investigation which in my opinion prejudice the financial viability of the society or the reasonable expectations of its members;

(iv) I have had regard to the following standards and guidance adopted or issued by the Board of Actuarial Standards and, in so far as they are relevant to my investigation for the purposes of this certificate, I have complied with them.

(b) The amount of the required minimum margin of solvency applicable to the society's insurance business immediately following the end of the period of investigation (including any amounts resulting from any increase in liabilities arising from a distribution of surplus as a result of the investigation into the financial condition of the insurance business) is £……………..…..

(c) I have the following additional comments (use extra pages).

Signature

Date

Name:

Address:

Qualification:

Return under the Friendly Societies Prudential Rules

Signatures

Name of Society

Period ended 31 December

Reg No

Signatures to the FSC2 Return

We certify that the information in this Return complies with the rules in chapter 5 of IPRU(FSOC).

We confirm also that the society consents to a copy of this Return being placed on the public file of the society.

Chief Executive	Date
Name (Block Capitals)	
Secretary	Date
Name (Block Capitals)	
Member of Committee	Date
Name (Block Capitals)	
Additional Committee member if the offices of the Chief Executive and Secretary are held by the same person.	Date
Name (Block Capitals)	

FSC 3 - RETURN

FSC3 Return

General Insurance Business: Periodic Investigation

FORM FSC 3

Register Number		Period ended 31 December	

Name of Society (as registered)	
Registered Office	
	Post Code:

The information provided in this FSC3 Return (General Insurance Business: Periodic Investigation), and the Actuary's certificate and Auditor's report included herein are the form and contents of an abstract under rule 5.2(2) for use by a friendly society which is a directive friendly society or non-directive incorporated friendly society (other than a flat rate benefits business friendly society) which is carrying on general insurance business.

One copy of the Return must be signed by the chief executive, the secretary and one committee member of the society (or two members of the committee if the offices of chief executive and secretary are held by the same person).

Three copies of this Return (including the original signed copy) must be submitted as soon as possible after 31 December and not later than 30 June:-

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

Returns under the Friendly Societies Prudential Rules
General insurance business: Periodic Investigation
Summary sheet of completed forms submitted

Name of Society

Reg No

Period ended 31 December

Where appropriate, certain Forms need to be copied in order to furnish separate details of business in the same format (e.g. the same Form completed separately for different classes of business). Where a Form is completed, please enter the total number of such forms in the corresponding box in the third column below. Where no Form is completed, please enter NIL. Where an additional summary form has been completed, please indicate YES in the fourth column.

Form Number	Details on Form	Number completed	Summary form used
Form 9	Statement of solvency		
Form 11	Margins of solvency – first method		
Form 12	Margins of solvency – second method – and Required minimum margin		
Form 13	Analysis of admissible assets		
Form 14	Liabilities and margins: (long term insurance business)		
Form 15	Liabilities (other than long term insurance business)		
Form 17	Analysis of derivative contracts		
Form 20	Technical account		
Form 21	Analysis of premiums		
Form 22	Analysis of claims, expenses and technical provisions		
Form 23	Analysis of net claims and premiums		
Form 23A	Descriptive section		
Form 23B	Actuary's certificate		
Form 23C	Auditor's report		
Form 23D	Signatures of officers		

Returns under the Friendly Societies Prudential Rules
Statement of Solvency

Name of Society

Period ended 31 December

	Reg No	Units £/£000

		1 As at the end of the period	2 As at the end of the previous period
Total available assets	10		
GENERAL INSURANCE BUSINESS			
Other than long term insurance business assets allocated towards general insurance business required minimum margin	11		
Implicit items valued in accordance with a waiver under section 148 of the Act	11a		
Required minimum margin for general insurance business (Note 1)	12		
Excess (deficiency) of available assets over the required minimum margin (11+11a – 12)	13		
LONG TERM INSURANCE BUSINESS			
Long term insurance business admissible assets	21		
Other than long term insurance business assets allocated towards long term insurance business required minimum margin	22		
Total mathematical reserves (after distribution of surplus)	23		
Other insurance and non-insurance liabilities (Note 2)	24		
Available assets for long term insurance business required minimum margin (21 + 22 – 23 – 24)	25		
Implicit items valued in accordance with a waiver under section 148 of the Act			
Future profits	31		
Zillmerising	32		
Hidden reserves	33		
Total of available assets and implicit items (25 + 31 + 32 + 33)	34		
Required minimum margin			
Required minimum margin for long term insurance business	41		
Explicit required minimum margin (1/6 x Line 41, or minimum guarantee fund if greater)	42		
Excess (deficiency) of available assets over explicit required minimum margin (25 – 42)	43		
Excess (deficiency) of available assets and implicit items over the required minimum margin (34 – 41)	44		
CONTINGENT LIABILITIES			
Quantifiable contingent liabilities in respect of other than long term insurance business (Note 3)	51		
Quantifiable contingent liabilities in respect of long term insurance business (Note 3)	52		

FSC 3 – Notes to Form 9

1 The entry at line 12 must be equal to the entry at line 49 in Form 12.

2 The entry at line 24 must be equal to the sum of lines 12 and 49 in Form 14, less line 19b in Form 14.

3 Particulars to be specified by way of supplementary note.

Returns under the Friendly Societies Prudential Rules
General insurance business: Calculation of required margin of solvency – first method

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Name of Fund/Summary

			Line	1 Last 12 months of this period	2 Last 12 months of previousperiod
Gross premiums receivable			11		
Premium taxes and levies (included in line 11)			12		
Sub-total A (11 – 12)			15		
Division of Sub-total A	Other than health insurance	Up to and including sterling equivalent of 50M Euro x 18/100	17		
		Excess (if any) over 50M Euro x 16/100	18		
	Health insurance	Up to and including sterling equivalent of 50M Euro x 6/100	19		
		Excess (if any) over 50M Euro x 16/300	20		
Sub-total B (17 + 18 + 19 + 20)			21		
Gross premiums earned			22		
Premium taxes and levies (included in line 22)			23		
Sub-total H (22 – 23)			26		
Division of Sub-total H	Other than health insurance	Up to and including sterling equivalent of 50M Euro x 18/100	28		
		Excess (if any) over 50M Euro x 16/100	29		
	Health insurance	Up to and including sterling equivalent of 50M Euro x 6/100	30		
		Excess (if any) over 50M Euro x 16/300	31		
Sub-total I (28 + 29 + 30 + 31)			32		

Returns under the Friendly Societies Prudential Rules

General insurance business: Calculation of required margin of solvency – first method

Name of Society

Period ended 31 December

Reg No Units £/£000

Name of Fund/Summary

		1 Last 12 months of this period	2 Last 12 months of previousperiod
Sub-total J (greater of sub-total B and sub-total I)	40		
Claims paid in 3 year period	41		
Claims outstanding carried forward at the end of the period	43		
Claims outstanding brought forward at the beginning of the period	45		
Sub-total C (41 + 43 – 45)	46		
Amounts recoverable from reinsurers in respect of claims included in Sub-total C	47		
Sub-total D (46 – 47)	48		
First result Sub-total J x $\frac{\text{Sub-total D}}{\text{Sub-total C}}$ (or, if 0.5 is greater, x 0.5)	49		
Provisions for claims outstanding (before discounting and net of reinsurance)	50		
Brought forward amount (12.43.2 x 50.1 / 50.2 or, if less, 12.43.2)	51		
Greater of lines 49 and 51	52		

NOTES

1. Entries in column 2, lines 17-20 and 28-31 must be the corresponding entries in column 1 of the Form for the previous year, even if the amount of Euro in the description of the line has changed.
2. 51.2 must be 11.51.2 from the previous year's return.

Returns under the Friendly Societies Prudential Rules

General insurance business: Calculation of required margin of solvency – second method, and statement of required minimummargin

Name of Society

Period ended 31 December		Reg No	Units £/£000

Name of Fund/Summary

			Line	1 Last 12 months of this period	2 Last 12 months of the previous period
Reference period (means the three last preceding financial years) (Note 1)			11		
Claims paid in reference period			21		
Claims outstanding carried forward at the end of the period			23		
Claims outstanding brought forward at the beginning of the period			25		
Sub-total E (21 + 23 – 25)			29		
Sub-total F: Conversion of Sub-total E to annual figure (multiply by 12 and divide by the number of months in the reference period)			31		
Division of Sub-total F	Other than health insurance	Up to and including sterling equivalent of 35M Euro x 26/100 (note 3)	32		
		Excess (if any) over 35M Euro x 23/100 (note 3)	33		
	Health insurance	Up to and including sterling equivalent of 35M Euro x 26/300 (note 3)	34		
		Excess (if any) over 35M Euro x 23/300 (note 3)	35		
Sub-total G (32 to 35)			39		
Second result Sub-total G x $\frac{\text{Sub-total D}}{\text{Sub-total C}}$ (or, if 0.5 is greater, x 0.5)			41		
Higher of first result and brought forward amount (Note 2)			42		
Required margin of solvency (the higher of lines 41 and 42)			43		
Minimum guarantee fund			44		
Required minimum margin (the higher of lines 43 and 44)			49		

NOTES

1. If the society has not been in existence long enough to acquire a reference period, this must be stated and lines 11 to 41 ignored.
2. The entry at line 42 must be equal to the entry at line 52 on Form 11.
3. Entries in column 2, lines 32-35 must be the corresponding entries in column 1 of the Form for the previous year, even if the amount of Euro in the description of the line has changed.

Returns under the Friendly Societies Prudential Rules
Analysis of admissible assets

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Category of assets/Total

INVESTMENTS:

				Line	1 As at the end of the period	2 As at the end of the previous period
Land and Buildings				11		
Investments in associated bodies	UK insurance dependants	Shares		21		
		Debts securities issued by, and loans to, dependants		22		
	Other insurance dependants	Shares		23		
		Debts securities issued by, and loans to, dependants		24		
	Non insurance dependants	Shares		25		
		Debts securities issued by, and loans to, dependants		26		
	Other associated bodies	Shares		27		
		Debts securities issued by, and loans to, associated bodies		28		
TOTAL (11 to 28)				39		
Other financial investments	Equity shares			41		
	Others shares and other variable yield securities			42		
	Holdings in collective investment schemes			43		
	Rights under derivative contracts			44		
	Debt securities and other fixed income securities	Fixed interest	Approved Securities	45		
			Other	46		
		Variable interest	Approved securities	47		
			Other	48		
	Participation in investment pools			49		
	Loans secured by mortgages			50		
	Other loans	Loans to public or local authorities and nationalised industries or undertakings		51		
		Loans secured by policies of insurance issued by the society		52		
		Other		53		
	Deposits with approved credit institutions and approved financial institutions	Withdrawal subject to a time restriction of one month or less		54		
		Withdrawal subject to a time restriction of more than one month		55		
	Other			56		

Returns under the Friendly Societies Prudential Rules

Analysis of admissible assets

Name of Society

Period ended 31 December

Reg No | Units £/£000

Category of assets / Total

INVESTMENTS AND OTHER ASSETS:

Category of assets			Line	1 As at the end of the period	2 As at the end of the previous period
Deposits with ceding undertakings			57		
Assets held to match linked liabilities	Index linked		58		
	Property linked		59		
Reinsurer's share of technical provisions	Provision for unearned premiums		60		
	Claims outstanding		61		
	Provision for unexpired risks		62		
	Other		63		
TOTAL (41 to 63)			69		
Debtors arising out of direct insurance operations	Policyholders		71		
	Intermediaries		72		
Debtors arising out of reinsurance operations	Due from ceding insurers and intermediaries under reinsurance business accepted		74		
	Due from reinsurers and intermediaries under reinsurance contracts ceded		75		
Other debtors	Due from dependants	Due in 12 months or less after the end of the financial year	76		
		Due more than 12 months after the financial year	77		
	Other	Due in 12 months or less after the end of the financial year	78		
		Due more than 12 months after the end of the financial year	79		
Tangible assets			80		
Cash at bank and in hand	Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities		81		
	Cash in hand		82		
Other assets (particulars to be specified by way of supplementary note)			83		
Prepayments and accrued income	Accrued interest and rent		84		
	Deferred acquisition costs		85		
	Other prepayments and accrued income		86		

Returns under the Friendly Societies Prudential Rules
Analysis of admissible assets

Name of Society

Period ended 31 December

Reg No	Units £/£000

Category of assets/Total

		1 As at the end of the period	2 As at the end of the previous period
Deductions (under paragraphs 15(2)(b) and 15(3) of Appendix 4) from the aggregate value of assets	87		
Total (71 to 86 less 87)	88		
Grand total of admissible assets (39 + 69 + 88)	89		
RECONCILATION TO ASSET VALUES DETERMINED IN ACCORDANCE WITH ACCOUNTS REGULATIONS (Note 1):			
Total admissible assets (as per line 89 above)	91		
Total assets in excess of the admissibility limits of Appendix 4 (as valued in accordance with those rules before applying admissibility limits) (Note 2)	92		
[deleted]	93		
Other differences in the valuation of assets (other than for assets not valued above)	94		
Assets of a type not valued above (as valued in accordance with the Accounts Regulations) (Note 3)	95		
Total assets determined in accordance with the Accounts Regulations (91 to 95)	99		
Amounts included in line 89 attributable to debts due from associated bodies, other than those under contracts of insurance or reinsurance	100		

FSC 3 – Notes to Form 13

1 The Accounts Regulations refer to the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

2 The admissibility limits are those applied under Annex B to Appendix 4.

3 'Assets of a type not valued above' refers to assets left out of account under 2(3) of Appendix 4.

4 If the amount shown at line 12 of Form 15 has had to be increased because of restrictions on discounting (see note 2 to Form 15), the reinsurers' share shown at line 61 must be adjusted to be consistent with the amount shown in Form 15.

Returns under the Friendly Societies Prudential Rules

Long term insurance business liabilities and margins

Name of Society

Period ended 31 December

Reg No	Units £/£000

Category of assets/Total

			Line	1 As at the end of the period	2 As at the end of the previous period
Mathematical reserves after distribution of surplus			11		
Cash bonuses which had not been paid to policyholders prior to end of the financial year			12		
Balance of surplus/valuation deficit			13		
Long term insurance business fund carried forward (11 to 13)			14		
Claims outstanding fallen due for payment before the end of the financial year	Gross amount		15		
	Reinsurers share		16		
	Net (15 – 16)		17		
Management Fund – Balance – surplus/(deficit)			19a		
Members' surplus and savings accounts	Long term insurance business after distribution of surplus		19b		
	Other		19c		
Other Revenue Account funds			19d		
Provisions for other risks and charges	Taxation		21		
	Other		22		
Deposits received from reinsurers			23		
Creditors and other liabilities	Arising out of insurance operations	Direct business	31		
		Reinsurance accepted	32		
		Reinsurance ceded	33		
	Debenture loans	Secured	34		
		Unsecured	35		
	Amounts owed to credit institutions		36		
		Taxation	37		
		Other			
Accruals and deferred income			39		
Provision for adverse changes			41		
Total other insurance and non-insurance liabilities (17 to 41)			49		

FSC 3 – FORM 14 (Sheet 2)

Returns under the Friendly Societies Prudential Rules
Long term insurance business liabilities and margins

Name of Society

Period ended 31 December

	Reg No	Units £/£000

Category of assets/Total			**1** As at the end of the period	**2** As at the end of the previous period
Excess of the value of net admissible assets (Note 1)		51		
Total liabilities and margins		59		
Amount included in line 59 attributable to liabilities to associated bodies, other than those under contracts of insurance or re-insurance		61		
Amount included in line 59 attributable to liabilities in respect of property linked benefits		62		
Amount of any additional mathematical reserves included in line 51 which have been taken into account in the appointed actuary's certificate		63		

NOTE

1. The entry at line 51 must be:
    (a) the value of the admissible assets (as included in line 89 of the appropriate Form 13) representing the long-term insurance business funds, fund or group of funds to which the Form relates, less
    (b) the amount of those funds, fund or group of funds, being the sum of the amounts shown at lines 14 and 49.

Returns under the Friendly Societies Prudential Rules

Liabilities (Other than long term insurance business)

Name of Society

Period ended 31 December

Reg No | Units £/£000

Class of Business (as in Part III of Chapter 7)

			Line	1 As at the end of the period	2 As at the end of the previous period
Technical provisions (gross amount)	Provision for unearned premiums (Note 1)		11		
	Claims outstanding		12		
	Provision for unexpired risks		13		
	Other		16		
	Total (11 to 16)		19		
Provisions for other risks and charges	Taxation		21		
	Other		22		
Deposits received from reinsurers			31		
Creditors	Arising out of insurance operations	Direct business	41		
		Reinsurance accepted	42		
		Reinsurance ceded	43		
	Debenture loans	Secured	44		
		Unsecured	45		
	Amounts owed to credit institutions		46		
	Other creditors	Taxation	47		
		Other	49		
Accruals and deferred income			51		
Total (19 to 51)			59		
Provision for adverse changes			61		
Total (59 + 61)			69		
Amounts included in line 69 attributable to liabilities to associated bodies other than those under contracts of insurance or reinsurance			71		

NOTE

1. The amounts shown in lines 11 to 13 and 16 must be stated gross of the reinsurer's share.
2. The amount shown in line 12 may only be discounted or reduced to take account of investment income:
(a) for class 1 or 2 business; or
(b) in respect of annuities.
So, if the technical provisions for claims outstanding for other business are discounted or reduced to take account of investment income, then they must be increased by the difference between the undiscounted and discounted provisions. In this case, the amount of the increase must be shown in a supplementary note to this form, together with the corresponding increase in the reinsurers' share shown in line 9-61 of Form 13.

Returns under the Friendly Societies Prudential Rules

Analysis of derivative contracts (other than those relating to property linked contracts or index linked benefits)

Name of Society

Period ended 31 December 19

Reg No	Units £/£000

Business: Long Term/Other than long term

Category of assets/Total

Derivative Contracts

			As at the end of the period: Assets 1	As at the end of the period: Liabilities 2	As at the end of the previous period: Assets 3	As at the end of the previous period: Liabilities 4
Futures Contracts	Fixed-interest securities	11				
	Equity shares	12				
	Land	13				
	Currencies	14				
	Other	15				
Options	Fixed-interest securities	21				
	Equity shares	22				
	Land	23				
	Currencies	24				
	Other	25				
Contracts for Differences	Fixed-interest securities	31				
	Equity shares	32				
	Land	33				
	Currencies	34				
	Other	35				
Adjustments for variation margin		41				
Total (11 to 41) (Note 1)		49				

NOTE 1. The entry at line 49.1 must be included at Form 13.44.1 and the entry at line 49.2 must be included at Form 14.38.1 or 15.49.1 as appropriate.

Returns under the Friendly Societies Prudential Rules

General insurance business: Technical account

Name of Society

Period ended 31 December

Reg No | Units £/£000

Class of business (as in Part III of Chapter 7)

Items to be shown net of reinsurance

			1 This period	2 Previous period
This period's underwriting	Earned premium (Note 2)	11		
	Claims incurred (Note 3)	12		
	Claims management costs (Note 4)	13		
	Increase in provision for unexpired risks (Note 5)	15		
	Other technical income or charges (Note 1)	16		
	Net operating expenses (Note 6)	17		
	Balance of period's underwriting (11 – 12 – 13 – 15 + 16 – 17)	19		
Previous period's underwriting	Earned premium (Note 7)	21		
	Claims incurred (Note 8)	22		
	Claims management costs (Note 9)	23		
	Other technical income or charges (Note 1)	25		
	Net operating expenses	26		
	Balance (21 – 22 – 23 + 25 – 26)	29		
Balance of all periods underwriting (19 + 29)		49		

NOTES

1. Particulars to be specified by way of supplementary note.
2. The entry at line 11 must be equal to Form 21.19.5
3. The entry at line 12 must be equal to Form 22.17.4
4. The entry at line 13 must be equal to Form 22.18.4
5. The entry at line 15 must be equal to Form 22.19.4
6. The entry at line 17 must be equal to Form 22.29.4
7. The entry at line 21 must be equal to Form 21.11.5
8. The entry at line 22 must be equal to Form 22.13.4
9. The entry at line 23 must be equal to Form 22.14.4

Returns under the Friendly Societies Prudential Rules

General insurance business: Analysis of premiums

Name of Society

Period ended 31 December

Reg No		Units £/£000

Class of business (as in Part III of Chapter 7)

Premiums receivable during the period		GROSS PREMIUMS WRITTEN		REINSURERS'SHARE		NET OF REINSURANCE	
		Earned in previous period 1		Earned in previous period 3		Earned in previous period 5	
In respect of risks incepted in previous periods	11						
		Earned in the period 1	Unearned at the end of the period 2	Earned in the period 3	Unearned at the end of the period 4	Earned in the period 5	Unearned at the end of the period 6
In respect of risks incepted in previous periods	12						
In respect of risks incepted in the period – Current financial year of period 31/12/… – For periods of less than 12 months	13						
In respect of risks incepted in the period – Current financial year of period 31/12/… – For periods of 12 months	14						
In respect of risks incepted in the period – Current financial year of period 31/12/… – For periods of more than 12 months	15						
In respect of risks incepted in the period – Previous financial year of period 31/12/… – For periods of less than 12 months	13a						
In respect of risks incepted in the period – Previous financial year of period 31/12/… – Fore periods of 12 months	14a						
In respect of risks incepted in the period – Previous financial year of period 31/12/… – For periods of more than 12 months	15a						
In respect of risks incepted in the period – Opening financial year of period 31/12/… – For periods of less than 12 months	13b						
In respect of risks incepted in the period – Opening financial year of period 31/12/… – For periods of 12 months	14b						
In respect of risks incepted in the period – Opening financial year of period 31/12/… – For periods of more than 12 months	15b						
Premiums receivable (less rebate and refunds) in previous periods not earned in the periods and brought forward to this period	16						
Total (12 to 16)	19						

Returns under Friendly Societies Prudential Rules

General insurance business: Analysis of claims, expenses and technical provisions

Name of Society

Period ended 31 December

Reg No | Units £/£000

Class of business (as in Part III of Chapter 7)

			1 Amount brought forward from previous period	**2** Amount payable/ receivable in this period	**3** Amount carried forward to next period	**4** Amount attributable to this period (Note 2)
Claims incurred in respect of incidents occurring prior to this period	Gross amount (Note 1)	11				
	Reinsurers's share	12				
	Net (11 – 12) (Note 3)	13				
	Claims management costs	14				
Claims incurred in respect of incidents occurring in this period	Gross amount	15				
	Reinsurers' share	16				
	Net (15 – 16)	17				
	Claims management costs	18				
Provision for unexpired risks		19				
Net operating expenses	Commissions	21				
	Other acquisition expenses	22				
	Administrative expenses	23				
	Reinsurance commissions and profit participations	24				
	Total (21 + 22 + 23 – 24)	29				

NOTES

1. Amounts included at lines 11 to 18 must be shown undiscounted.
2. The values in column 4 must be calculated as follows: for lines 11 to 18 values in columns 2 + 3 – 1; for line 19 values in columns 3 – 1; and for lines 21 to 29 values in columns 1 + 2 – 3.
3. The amounts shown at lines 11 to 13 must exclude amounts in respect of claims management costs.

FSC 3 - FORM 23

Returns under the Friendly Societies Prudential Rules
General insurance business: Analysis of net claims and premiums

Name of Society:

Period ended 31 December

Reg No | Units £/£000

Class of Business (as in Part III of Chapter 7)

Financial year of origin: Month	Financial year of origin: Year		Claims paid (net) during the period	Claims out-standing (net) as at the end of the period	Total claims paid (net) since the end of the period, but prior to this financial year	Claims paid (net) during this period	Claims outstanding carried forward: Reported (net)	Claims outstanding carried forward: Incurred but not reported (net)	Claims outstanding brought forward: Reported (net)	Claims outstanding brought forward: Incurred but not reported (net)	Balance on each period (4 + 5 + 6 – 7 – 8)	Earned premiums (net)	Deteriora-tion (surplus) of original reserve %	Claims ratio %
			1	2	3	4	5	6	7	8	9	11	12	13
		11												
		12												
		13												
		14												
		15												
		16												
		17												
		18												
		19												
		20												
Previous years		21												
Reconciliation		22												
Total (11 to 22)		29												

FSC 3 – Notes to Form 23

1 All figures must be shown net of the reinsurers' share.

2 Columns 1 to 9 must be shown undiscounted.

3 All amounts shown must exclude claims management costs.

4 The percentage shown at column 12 must be the ratio of the columns 3 + 4 + 5 + 6 – 2 to column 2.

5 The percentage shown at column 13 must be the ratio of the columns 1 + 3 + 4 + 5 + 6 to column 11.

6 23.29.5 + 23.29.6 = 22.13.3 + 22.17.3;
23.29.7 + 23.29.8 = 22.13.1; and
23.29.4 = 22.13.2 + 22.17.2

7 The percentages shown at columns 12 and 13 must be expressed as percentages to one place of decimals.

Returns under the Friendly Societies Prudential Rules
Descriptive Section

Name of Society:

Reg No

1. The date to which the investigation relates is

2. The date to which the latest previous investigation relates is

3. A synopsis of the report by the appropriate actuary on the investigation into the financial condition of the society in respect of its general insurance business, including the actuary's assessment of the financial viability of the society and his or her interpretation of the reasonable expectations of policyholders.

Returns under the Friendly Societies Prudential Rules

General insurance business: Periodic Investigation – Actuary's Certificate

Name of Society

Period ended 31 December

Reg No

I certify that:

(a) (i) in my opinion, proper records have been kept by the society adequate for the purpose of determining the technical provisions in Form 15;

(ii) in my opinion, the technical provisions shown in Form 15 are appropriate having regard to the nature of general insurance business undertakings of the society including my interpretation of the reasonable expectations of its members as described in Form 23A; and

(iii) for the purpose of sub-paragraph (ii) above the liabilities have been assessed in accordance with Appendix 5 in the context of assets valued by the *committee* of the society in accordance with Appendix 4, as show in Form 13;

(iv) the contents of the synopsis in Form 23A correctly reflect the results of my investigation into the financial condition of the society in respect of its insurance business in so far as that investigation relates to general insurance business;

(v) I have had regard to the following standards and guidance adopted or issued by the Board of Actuarial Standardsand, in so far as they are relevant to my investigation for the purposes of this certificate, I have complied with them

(b) I have the following additional comments (use extra pages).

Signature *Date*

Name:

Address:

Qualification:

Returns under the Friendly Societies Prudential Rules

General insurance business: Periodic Investigation – Auditor's Report

Name of Society ____________________

Period ended 31 December

Reg No

Auditor's Report

Signature ------------------------------ Date ------------------

Name ____________________ Address: ____________________

Qualification: ____________________

Return under the Friendly Societies Prudential Rules

General insurance business: Periodic Investigation - Signatures

Name of Society

Period ended 31 December

Reg No

Signatures to the FSC3 Return

We certify that the information in this Return complies with the rules in chapter 5 of IPRU(FSOC).

We confirm also that the society consents to a copy of this Return being placed on the public file of the society.

Chief Executive | Date

Name (Block Capitals)

Secretary | Date

Name (Block Capitals)

Member of Committee | Date

Name (Block Capitals)

Additional Committee member if the offices of the Chief Executive and Secretary are held by the same person. | Date

Name (Block Capitals)

CERTIFICATE OR STATEMENT **FORM FSC4**

given by the appropriate actuary pursuant to rule 5.2(3)

Period ended 31 December ....

The appropriate actuary is requested to complete the certificate in section A, or if unable to do so, the statement in section B. The chief executive of the society is requested to sign section C.

SECTION A

CERTIFICATE

I, ... [(1)], CERTIFY that in my opinion there has been no material change in the financial condition of .... [(2)] in respect of its insurance business since the society sent the last abstract of the appropriate actuary's report (on the society's financial condition as at .... [(3)]) to the Financial Services Authority under rule 5.2(2) which would be likely to result in the value of the liabilities (including any required margin of solvency) exceeding the value of the assets should a full investigation be undertaken as at .... [(4)]. I am unaware of any circumstances arising between the year end to which the certificate relates and the date on which it is signed which would cause the society to fail to meet its minimum solvency requirement [(5)] / the society's liabilities to exceed its assets [(5)].

Signed .... Date ....

Fellow of the .... of Actuaries

SECTION B

STATEMENT

I, ... [(1)], am unable to give a certificate in the form set out in section A above in respect of .... [(2)].

Signed .... Date ....

Fellow of the .... of Actuaries

SECTION C

Signed .... (Chief Executive) Date ....

***Notes** to sections A, B and C*

- (1) *insert full name of appropriate actuary*
- (2) *insert name of friendly society*
- (3) *insert effective date of last actuarial abstract*
- (4) *insert date of year end to which the certificate relates*
- (5) *delete as appropriate – on the basis of rule 4.1*

The form should be sent to
The Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS

Annex 1

GUIDANCE ON CORPORATE GOVERNANCE OF FRIENDLY SOCIETIES

This Annex sets out the *FSA's* view of best practice in the corporate governance of *friendly societies*.

The committee of management

1. (1) The *committee* should meet regularly, retain full and effective control over the *friendly society* and monitor the executive management, subject always to the authority vested in members either directly or through delegate bodies, either annually or at other properly constituted meetings.

(2) The effectiveness of a *committee*'s arrangements for monitoring the performance of executive management and for the overall control and direction of the *friendly society* are important tests of its compliance with the *FSA* principles for business in particular principles 2 ("Skill, care and diligence") and 3 ("Management and control").

(3) There should be appropriate arrangements such as a clearly accepted division of responsibilities at the head of a *friendly society*, which will ensure a balance of power and authority, such that no one individual can exert undue influence.

(4) The *1992 Act* envisages that the offices of Chairman and Chief Executive would be separately held.

(5) In relation to the size of the *friendly society*, the *committee* should include non- executive members of sufficient number for their views to carry significant weight in the *committee*'s decisions.

(6) A *committee* should have non-executive members of sufficient quality, breadth of experience and calibre for their views to carry weight in the *committee*'s decisions and who, individually, can devote the necessary time and attention to the *friendly society*'s business.

(7) There should be an agreed procedure for any member of the *committee* to seek additional information from the executives and to take independent professional advice at the *friendly society*'s expense; as may be necessary in the furtherance of his/her duties.

Non-Executive members of the committee of management

2. (1) Non-executive members of the *committee* should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

(2) In assessing whether a candidate for election has an appropriate level of competence, consideration should be given to his or her previous experience of similar responsibilities, the record in performing them and, where appropriate, whether the candidate has relevant qualifications and training. Also important is the individual's ability to bring informed, independent judgement to bear on the issues considered by the *committee*.

(3) They should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

(4) If fees are paid they should reflect the time which non-executives commit to the *friendly society* and the particular responsibilities related to the size, complexity and diversity of the *friendly society*'s business.

(5) Non-executive members should be elected for specified terms subject to the ceiling imposed by paragraph 6(1)(a) of Schedule 11 to the *1992 Act*; and re-election should not be automatic. Candidates for election as non-executive members should be selected from as wide a constituency as possible.

Executive members of the committee of management

3. (1) Where appointments of senior executives are subject to a formal service contract for a fixed term, the term should not exceed 3 years.

(2) In the case of any other service contract the period of notice which the *friendly society* has to give to terminate the contract should not exceed 1 year.

(3) There should be full and clear disclosure of the total emoluments and terms of appointment (including notice) of all of the members of the *committee*.

(4) Such disclosure would normally be given in the accounts issued by the *friendly society* to its members.

Annex 2

GUIDANCE ON OFFICERS' LIABILITY INSURANCE

Introduction

1. This Annex draws attention to the need for a *committee* of a *friendly society* to consider whether to purchase and maintain liability insurance for *officers* and to make sure that the terms of any such policy are fully understood and meet the *friendly society*'s needs. A *committee* should disclose the fact that the *friendly society* has purchased or maintained such insurance in the *committee*'s annual report.

Section 106

2. Section 106 of the *1992 Act* provides that a *friendly society* cannot exempt its *officers* (including the *appropriate actuary*) or auditors from liability for negligence, default, breach of duty or breach of trust, or indemnify them against such liability. A *friendly society* may, however, indemnify its *officer*s or auditors against liability for defence against proceedings where judgement is favourable or the person is acquitted. Section 106 also provides that a *friendly society* can purchase and maintain insurance against any such liability.

3. A *friendly society* which attempts either directly or indirectly (eg, via a year end bonus) to compensate its *officers* for any liabilities arising as a result of error or omission would contravene the provisions of section 106. Such contravention would also clearly risk breaching principle 2 of the *FSA* Principles for Businesses (conduct of business with due skill, care and diligence).

Duty of care

4. Annex 3 (Guidance on Systems of Accounting, Control of Business and Inspection and Report) draws attention to the increasing risks faced by *friendly societies* in the light of the increasing complexity of operations and the increasing pace of change and risks in the financial markets. These factors have led to an increase in the risk that errors and omissions will occur which may give rise to substantial liabilities for *officer*s.

5. Annex 3 also draws attention to the special duty of care that the *officers* of a *friendly society* have in respect of safeguarding the interests of *policyholders*. This duty is recognised in principle 6 of the FSA Principles for Businesses (paying due regard to *policyholders* interests and treating them fairly). In the *FSA's* view, because of the increasing risk of error and omission, and the possibility that any liabilities which may arise as a result could be substantially greater than an *officer's* or *officers'* financial resources to cover them, that duty of care places a responsibility on a *committee* to consider whether the *friendly society* should obtain indemnity insurance cover for appropriate *officers* in the interests of members (see 6).

Liability insurance

6. The *FSA* will expect any *committee* that has not already done so to give formal consideration to whether to obtain indemnity insurance cover against error and omission for appropriate *officers* (eg. *committee* and senior executives). The *committee* may wish to take into account a number of factors including: the implications of the

risks inherent in the nature and scale of the *friendly society's* business; the cost of the indemnity insurance *premiums*; and *officers'* concerns about the risk of liability that they face because of their duties and responsibilities for the *friendly society*. The minutes of the meeting at which the issue was formally discussed by the *committee* should record the decision reached and underlying reasoning.

7. A *committee* which decides to obtain and maintain indemnity insurance cover for its *officers* will need to ensure that the implications of the policy terms and conditions, and particularly of the list of exclusions, are fully understood. The best starting point may be for the *committee* to decide the key elements it thinks are essential for such a policy before considering, in conjunction with its professional advisers, whether the terms and conditions of specific policies adequately meet those requirements.

8. The *committee* of a *friendly society* which has obtained suitable indemnity cover should not relax its approach to minimising the risks of liability arising from error and omission. It is very important that a *committee* takes every step it can to ensure its *friendly society*'s systems are adequate to minimise the risks: systems of control should be sufficient to minimise the risk of errors or omissions occurring; systems of inspection and report need to be capable of identifying any such problems at an early stage, so that matters can be rectified quickly before substantial damage has occurred.

Reporting requirements

9. For companies subject to the requirements of the Companies Acts the fact of the purchase and/or maintenance of indemnity insurance against *officers'* and auditors' liabilities should be disclosed in the directors' report to the annual accounts. The *FSA* considers that the *committee* of a *friendly society* which obtains and/or maintains such an insurance policy should similarly disclose the fact to members in the *committee's* annual report.

Annex 3

Part I

GUIDANCE ON SYSTEMS OF ACCOUNTING, CONTROL OF BUSINESS AND INSPECTION AND REPORT

1. This Part of the Annex sets out the key issues that the *FSA* considers the *committee* and the management of a *friendly society* need to address if the *friendly society*'s systems are to satisfy the principle 3 of the FSA Principles for Business. That principle requires a *friendly society* to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. The *FSA* expects that these issues will have been considered by a *non-directive friendly society*'s *committee* in preparing its reports under rule 3.1.

A. INTRODUCTION

Background

2. Rule 3.1 requires the *committee* of a *friendly society* to send a statement of opinion (also referred to in this note as the rule 3.1 report) to the *FSA* each year on the compliance of the *friendly society* with that section.

3. This Annex provides practical guidance to *friendly societies* about the key issues in the *FSA's* view that:

(a) need to be addressed if the requirements of rule 3.1 are to be satisfied; and

(b) need to be considered by the *friendly society's committee* in preparing its reports to the *FSA*,

and also provides guidance on the format of reports.

Application of rule 3.1

4. Experience among financial institutions generally continues to demonstrate the importance for the protection of investors of adequate systems of control. As far as *friendly societies* are concerned the powers under the *1992 Act*, the increasing complexity of *friendly societies'* operations (including activities carried on by the controlled bodies of *incorporated friendly societies*) combined with the increased pace of change in financial markets emphasises the need for such systems. Rule 3.1 requires *friendly societies* to:

(a) cause adequate accounting records to be kept; and

(b) establish and maintain systems of control of business and records and of inspection and report.

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. Chapter 3 covers the roles of *committees*, and the *FSA* with regard to systems and reporting. As with other prudential provisions, it is the responsibility of the *committee* of a *friendly society* to ensure the requirements of rule 3.1 are met and to be able to demonstrate that to the *FSA*. The *FSA* sees the main elements of the *committee's* responsibilities to be:

(a) establishing and maintaining arrangements for the continuous review of systems, including those for new business;

(c) assessing whether the *friendly society* (including any *registered branches*), or the *friendly society* and any controlled bodies ("the group"), has complied with the relevant requirements of the Act, *FSA* rules made under the *Act* and the *1992 Act* for the period under review and, as necessary, identifying any shortcomings in compliance with the requirements, together with the corrective actions taken or proposed, including timetable;

(d) preparing and submitting the rule 3.1 reports required by the *FSA* from the *committee* by the due date; and

(e) discussing with the *FSA* any issues arising from these reports and, where appropriate, corrective actions taken or planned.

Satisfying the requirements of rules 3.1

6. It would not be practical to document all the possible considerations the *committee* and management of a *friendly society* will have to take into account in considering whether their *friendly society* satisfies the requirements of rule 3.1. This note therefore focuses on the main issues which, in the opinion of the *FSA*, need to be addressed by the *committee* and by the management of a *friendly society* if the *friendly society* is to satisfy the requirements of rule 3.1. Where the chief executive of a *friendly society* is not also a member of the *committee*, it is nevertheless still important that he or she gives full consideration to these issues - not least because the chief executive is required to be a signatory to the *committee*'s reports to the *FSA* under rule 3.1. This note includes a framework which the *FSA* believes can be applied to all *friendly societies* but also recognises the considerable diversity in nature, scale and scope of *friendly societies*' operations.

7. The *FSA* expects that the issues set out in this Annex will have been addressed prior to the preparation of the rule 3.1 report.

Controlled bodies

Friendly societies with registered branches

9. Rules 2.2 and 2.3 require a *friendly society* with *registered branches* to supervise the activities of the branches, notwithstanding the duties of the *committees* and managements of those branches. This includes supervision of compliance with the requirements of rule 3.1. The management information provided to the *committee* and management of a *friendly society* which has *registered branches* will need to include information about the activities of the *friendly society* as a whole (see 18).

Business standards

10. Principle 3 of the FSA Principles for Businesses requires a *friendly society* to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. The high standards needed for the management of a *friendly society* apply not only to accounting records and controls, but more broadly to business controls over all aspects - including key management information - of the business carried on by a *friendly society*.

B. ACCOUNTING RECORDS AND SYSTEMS

11. The principal reasons why a *friendly society* (including any *registered branch*) or a group is required by rule 3.1 to maintain adequate accounting and other records are:

(a) to provide the *committee* and management of a *friendly society* (or a branch) with adequate financial and other information to enable them to conduct its business in a prudent manner on a day to day basis;

(b) to enable members of the *committee* to fulfil their statutory duties in relation to the preparation of annual accounts in accordance with sections 69 and 70 and the regulations made under section 70 of the *1992 Act* (currently the *Accounts Regulations*);

(c) to safeguard the assets of the *friendly society* (or branch) and the interests of *policyholders*;

(d) to enable the *friendly society* (or branch) properly to discharge the duties imposed on it by or under the *Act*, *FSA* rules made under the *Act* and the *1974 Act* and/or the *1992 Act*; and

(e) to provide the *committee* and the management of the *friendly society* (or branch) with sufficiently timely and accurate information to enable them to submit the information required or requested by the *FSA*.

12. When forming their opinion on whether the accounting and other records are adequate, the *committee* and chief executive of a *friendly society* should assess the scope and nature of the records in the context of the *friendly society*'s needs and particular circumstances. They should have regard to the manner in which the business is structured, organised and managed, as well as the size and nature of the *friendly society* and the volume and complexity of its transactions and commitments. In particular, they will need to satisfy themselves that the records:

(a) are kept in legible form and/or are capable of reproduction in a legible form to be inspected or made available for inspection;

(b) are such that adequate precautions are taken for guarding against the possibility of falsification and for facilitating the discovery of falsification should that occur;

(c) are such that sufficient information is available to enable the rights and expectations of the *policyholders* to be determined;

(d) capture and record on a timely basis, and in an orderly fashion every transaction and commitment which a *friendly society* or any *registered branch* enters into with sufficient information about each to explain:

 (i) its nature and purpose;

 (ii) the assets and/or liabilities, actual and contingent, which arise or may arise from it;

 (iii) the income and/or expenditure, current and deferred, which arise from it;

(e) disclose in an orderly and integrated manner, and with reasonable accuracy and promptness, the state of the business at any time.

The *committee* and management of a *registered branch* will also need to have regard to the matters in (a) to (e).

13. The records should be maintained so as to enable the financial and business information to be extracted promptly so that the *committee* and management can monitor and control the performance of the business, the state of its affairs and the risks to which it is exposed.

C. SYSTEMS OF BUSINESS CONTROL

General

14. It is important for a *friendly society* to identify the risks associated with each area of the business it undertakes and the manner in which it carries out that business. Risks associated with the activities of any *registered branches* or controlled bodies should be similarly identified. Control objectives may then be set for each area of the business, and controls established and maintained which address appropriately the identified risks with the aim of ensuring:

(a) the conduct of the business in a prudent manner and in accordance with the *friendly society*'s statements of policy and business practice and any applicable registered rules;

(b) that the *committee* and management have sufficient, and sufficiently reliable, financial information to enable them to effectively direct, control and monitor the business and manage the risks identified; and

(c) compliance with all relevant statutory and regulatory requirements.

15. It is not practical for this section of the Annex to set out a comprehensive list of the risks that arise or the controls that might be established to address the risks. This section therefore focuses on general areas of concern to *friendly societies* and, in particular on the "high level" controls (see 16 to 24) that need to be established in these areas. "High level" controls would, in this context, be the overall supervisory controls available to and exercised by the *committee* and other senior *officers* (eg chief executive) - see also B4 in Attachment B of this Annex and C2(e) and C5(b) in Attachment C of this Annex.

Organisational control systems

16. A *friendly society* needs:

(a) clearly defined organisational arrangements together with a defined structure of authorities and responsibilities - including reporting lines - distinguishing between decisions to be reserved for the *committee* and those to be delegated to managers and other employees; and

(b) arrangements for reviewing compliance with, and effectiveness of, organisational controls.

17. In forming their opinion on systems of business control the *committee* and chief executive of a *friendly society* need to establish whether:

(a) the *friendly society's* overall organisational arrangements are adequately defined and documented, for example in an organisational manual;

(b) the *friendly society's* decision-making processes together with authority limits and responsibilities are adequately defined and documented, for example in operating manuals; and

(c) compliance with approved authority limits and stipulated segregation of duties is effectively monitored and controlled.

Management information systems

18. Rule 3.1(5) requires the *committee* of a *friendly society* (including a *friendly society* with *registered branches*, see 9) or the *committee* of a *registered branch* to maintain information systems which, amongst other matters:

(a) enable the respective *committee* to direct and control the *friendly society's* business or the *registered branch's* business; and

(b) provide information required by the *FSA* in its role of prudential supervisor.

19. In evaluating whether a *friendly society* has complied with the requirements, the *committee* and management of the *friendly society* need to satisfy themselves that:

(a) the information is sufficient to enable the *committee* to determine whether the *friendly society* is meeting the requirement to maintain adequate financial resources (see the rules in chapter 4 and also the guidance in 21);

(b) the information available for the different areas of a *friendly society*'s activities, including those of controlled bodies, is sufficient for the proper assessment of the risks (including those arising from current relevant market conditions and trends) and the proper determination of the need for capital and liquidity;

(c) the information about the relative assets and liabilities attributable to different classes of members is sufficient to enable the *friendly society* to determine whether the reasonable expectations of each class of *policyholders* are likely to be met;

(d) the information available is sufficiently comprehensive to provide the *committee* with a clear statement of the performance and financial position of the *friendly society* (including any *registered branches*) and, if appropriate, the group;

(e) management information reports are prepared as regularly as necessary to ensure that the *committee* is given timely information about all aspects of the business;

(f) actual performance is compared with planned or budgeted performance on a regular basis and significant variations are highlighted and explained (see also A6 of Attachment A of this Annex);

(g) sufficient attention is focused on key factors affecting income and expenditure, including capital expenditure, and that appropriate performance indicators are employed; and

(h) management information is accurately prepared from the underlying accounting and other records and is presented in a form which is clear, consistent and understandable to those persons for whom it is provided.

The *committee* and management of a *registered branch* will also need to have regard to the matters in (a) to (h) in so far as they are relevant to a branch.

20. It is important that the form and content of management information is regularly reviewed to ensure that it remains appropriate and relevant to the current pattern of a *friendly society's* business and to market conditions.

21. In forming a view on whether the management information system is sufficiently comprehensive, the *committee* and management of a *friendly society* need to consider whether the information made available to them provides, where relevant, a clear statement of:

(a) the solvency position;

(b) the liquidity position;

(c) surpluses and shortfalls, assets and liabilities, profits and losses in respect of controlled bodies;

(d) the performance of investments;

(e) for a *friendly society* which makes use of *derivative contracts* the *exposures* and uncovered transactions arising from off-balance sheet transactions; and

(f) the financial viability of products and controlled bodies.

The *committee* and management of a *registered branch* will also need to have regard to the matters in (a) to (f) in so far as they are relevant to a branch.

22. Where the *friendly society* has controlled bodies it is particularly important that information covers all the component activities and also the overall group position.

Information for the *FSA*

23. Rule 3.1(5)(b) requires the systems of control and of inspection and report to be maintained to ensure that the information reported to the *FSA* is sufficiently accurate for the purpose for which it is obtained and is regularly provided. In the case of items requiring estimates or judgement by management there will inevitably be a degree of approximation involved. In these cases, the approximations should be capable of being clearly explained, and should be based on stated assumptions. Financial information should be reviewed prior to submission to the *FSA* at sufficiently senior levels in the *friendly society* to ensure, amongst other matters, consistency with any applicable guidance notes and consistency of information provided in different returns but drawn from the same data source.

Planning systems

24. The *committee* and management of a *friendly society* have to satisfy the *FSA* Principles for Businesses in respect of the *friendly society*'s current and its future business. For this reason the *committee* and management need to satisfy the *FSA* that the *friendly society* currently meets the requirements of the *FSA* Principles for Businesses and in addition that there is the capacity and intention to continue to do so. A satisfactory planning system is essential for this latter purpose. Further details are set out in Attachment A of this Annex.

Documentation of systems

27. Rule 3.1(4)(b) provides that systems of control should not be treated as if they have been established or maintained unless a detailed statement in writing of the systems as in operation for the time being is kept available for the *committee*. Further details are set out in Attachment B of this Annex.

D. SYSTEM OF INSPECTION AND REPORT

28. The requirement for a *friendly society* or a *registered branch* to establish and maintain a system of inspection and report is distinct from the requirement to establish and maintain systems of control. The *FSA* expects that the system of inspection will be undertaken by one or more independent inspectors ("the inspection function"). In this context independent means independent of the functions inspected, see C3(a) at Attachment C of this Annex . The precise arrangements will depend upon the size and nature of the *friendly society* and could therefore vary considerably. Suitable

arrangements would include a department (eg an internal audit department) of one or more members of staff appointed on a full or part-time basis or inspection services provided from outside the *friendly society*, for example from an auditing firm other than the *friendly society*'s auditors (who would not normally be expected to provide inspection services - see C6(a) of Attachment C of this Annex). The inspection function should report direct to the *committee* or the audit sub-committee (see 29). The needs of the smallest *friendly societies* with respect to a system of inspection and report may be very simple and it is for the *committee* of such a *friendly society* to consider how best to fulfil the requirements. Further details are set out in Attachment C of this Annex.

E. COMMITTEE REVIEW AND OVERSIGHT

29. The ultimate responsibility for ensuring a *friendly society* complies with the requirements of rule 3.1 rests with the *committee* (see 5). The *committee* will therefore need effective oversight and review procedures to be able to discharge its responsibilities, including those under rule 3.1. An audit sub-committee can assist a *committee* in this respect - although such a sub-committee cannot have delegated to it the responsibilities of the full *committee* for the systems of control and of inspection and report. The *committee* of a *friendly society* may wish to consider whether to establish an audit sub-committee, which would normally be expected to consist of non-executive *committee* members, to advise it on at least some of the issues it will need to consider. As with any sub-committee of the *committee*, the audit sub-committee will need to have documented terms of reference which make clear its role, responsibilities and reporting lines. It would not be appropriate for an audit sub-committee, or any of its members, to carry out inspections themselves, since this would put the members of the sub-committee in the position of being responsible for reviewing the effectiveness of their own work. The matters on which an audit sub-committee might advise include:

(a) the review of the adequacy of the *friendly society*'s system of business control;

(b) the preparation and supervision of the *friendly society*'s inspection programme;

(c) the receiving of reports from the inspection function and reporting to the *committee* on the inspection programme together with recommendations for improvements;

(d) the review of the effectiveness of the *friendly society's* system of inspection and report, including an assessment of the scope of work performed by the inspection function, the nature and timing of inspection reports and the adequacy of resources available to the inspection function;

(e) the review of the adequacy of management information and other reports made available to the *committee*;

(f) the review of the annual accounts prior to their approval by the *committee*;

(g) any major problems arising which might have a detrimental impact upon the *friendly society's* solvency position or reputation; and

(h) liaison with the *friendly society's* auditors, including discussion on the scope of and matters arising from the audit.

If a *friendly society* has not established an audit sub-committee the matters in (a) to (h) will need to be dealt with directly by the full *committee*.

F. ANNUAL REPORTS BY THE COMMITTEE

Statement of opinion of committee of management and chief executive

30. 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.

31. The purposes of requiring an annual statement of opinion by the *committee* and chief executive are:

(a) to focus the attention of the *committee* on the need to review and develop systems in line with the changing business environment and risks associated with it, in order to provide adequate protection to members' funds; and

(b) to take the first step in satisfying the *FSA* that the *committee* has done so.

In forming their opinion, the *committee* and chief executive will need to consider the matters which are set out in rule 3.1 and in this Annex.

Criteria for determining compliance and non-compliance

32. The *FSA* considers that rule 3.1(6) requires matters to be reported which individually or collectively are significant and which result in there not being reasonable assurance that the requirements of rule 3.1 have been complied with in some significant respect at any time during the year. The matters reported should be confined to significant shortcomings and exceptions only (see 34). It is not necessary for the reports to detail how the *friendly society* has achieved compliance with the provisions of rule 3.1. Where significant deficiencies have been identified and reported, the *FSA* expects the report to include: explanations of the shortcomings or exceptions which are sufficiently detailed to enable the *FSA* to understand the matters being reported and their seriousness without the necessity to refer to other sources of information; a statement of the corrective measures taken and/or to be taken; and date of full rectification or target timetable for completion of the corrective action. A shortcoming that has been rectified before the year end will still need to be reported, with details provided of the corrective action that was taken and the date rectification was achieved.

34. The *FSA* does not consider that minor deficiencies identified in the accounting records, or systems of control and of inspection and report, need to be reported provided that the *committee* and the chief executive have satisfied themselves that those deficiencies were not symptomatic of more serious problems. If a *committee* is undecided as to whether a particular marginal matter is of sufficient significance to require inclusion in its rule 3.1 report, it should seek the advice of the *friendly society's* auditors.

Matters to be reported to the FSA

35. Circumstances in which the *FSA* would normally expect exceptions to be included in the rule 3.1 report include:

(a) the absence of accounting records, or of systems of control, or of the system of inspection and report, or of the documentation of the systems of control necessary to enable *committee* members and other *officers* to discharge their duties;

(b) a significant weakness or failure in any of the records or systems or documentation of those systems which occurred during the year; and

(c) other matters which resulted, individually or collectively, in there not being reasonable assurance that the requirements of rule 3.1 have been complied with.

36. A format for rule 3.1 reports is provided in Attachment D of this Annex.

37. The *FSA* intends the rule 3.1 reporting process to be beneficial for the *committee* of a *friendly society*, as well as fulfilling the purposes of prudential supervision. In the normal course of events the *FSA* would not expect a qualified report to trigger the exercise of any of its powers provided there was evidence that the *committee* was carrying out its duties conscientiously and taking appropriate corrective action. Conversely, in the context of maintaining a frank and open supervisory relationship between the *FSA* and a *friendly society*, the *FSA* would view seriously any failure to disclose known significant shortcomings.

The FSA's response to reports received

39. The reports received from *friendly societies* will, together with other information available to it, be used by the *FSA* as part of its evaluation of the position of each *friendly society* in relation to:

(a) the requirements of rule 3.1; and

(b) the *FSA* Principles for Businesses.

40. When a qualified report is received the *FSA* will consider whether the corrective action appears sufficient, and whether it calls in question the adequacy of the protection of the interests of *policyholders* of the *friendly society*. A qualification of the rule 3.1 report may not call such protection into question, provided that the report also indicates timely and effective corrective action. Before reaching any conclusions, however, a meeting with a *friendly society's committee* and/or management may be arranged, which the *friendly society*'s auditors may also be asked to attend. The purposes of such a meeting would be to:

(a) establish whether or not the matters reported are prudentially significant;

(b) understand fully any proposals in the report for corrective action; and

(c) where appropriate, agree a basis for monitoring the implementation and effectiveness of the proposals.

Whether or not a report is qualified, the *FSA* may wish to explore the basis of the assessment by the *committee* in its report. In so doing, the *committee* may be asked to satisfy the *FSA* on how it has dealt with the various issues in this Annex.

Annex 3

Part II

GUIDANCE ON SYSTEMS OF CONTROL OVER INVESTMENTS

1. This Part of the Annex provides guidance on the main elements of systems of control over investments in conjunction with Part I of this Annex which provides guidance on Systems of Accounting, Control of Business and Inspection and Report. A and B of this Part of the Annex include guidance of general application to *friendly societies*. C provides guidance to *friendly societies* which make use of *derivative contract*s.

A - Background

2. Chapter 3 includes a number of provisions with implications for the establishment and maintenance of systems of control over a society's investments - the main provisions are listed below. For ease of reference the provisions listed are split into two elements, those with general implications for the accounting records of, systems of control over, and inspection and report on a society's investments (see 3 to 5) and those which have specific implications for a society's investment policy (see 6 to 13). These lists are not intended to be exhaustive.

3. Principle 3 of the *FSA* Principles for Businesses requires a *friendly society* to take reasonable care to organise and control its affairs responsibly and effectively with adequate risk management systems.

4. Rule 3.1(1) requires every society and branch to "establish and maintain adequate systems of control of its business and records and of inspection and report".

5. Rule 3.1(4) requires the systems of control and inspection and report to be such as to enable the *committee* properly to discharge the duties imposed on them under the *Act*, the *1992 Act* or the *1974 Act*, and for the *committee*, the functions of direction of the affairs of the society or branch.

Requirements with implications for investment policy

General

6. Section 46 of the *1974 Act* (as amended by the *1992 Act*): this section provides information about the investments into which societies registered under the *1974 Act* may place funds, and includes any investment in which trustees are authorised by law to invest funds.

7. Section 14 of the *1992 Act*: this section provides information about the investments into which incorporated societies may place funds.

Applicable to non-directive incorporated friendly societies

9. Rule 4.12(1) requires the assets backing insurance liabilities (other than in respect of *linked benefits*) for a *non-directive incorporated friendly society* to satisfythe following conditions:

(a) “......of appropriate safety, yield and marketability having regard to the *classes* of business carried on”; and

(b) “…... investments are appropriately diversified and adequately spread and that excessive reliance is not placed on investments of any particular category or description”.

10. Rule 4.12(2) applies to the *linked long-term contracts* of a *non-directive incorporated friendly society* for which liabilities are covered by the value of assets in an internal fund, or units in a collective investment in transferable *securities*, or by reference to a share index, or by assets of appropriate safety, yield and marketability which correspond, as nearly as may be, to the assets on which the reference value is based.

11. Rule 4.12(3) also applies in respect of the *linked long-term contract*s of a *non-directive incorporated friendly society* and requires the society to secure that its liabilities under the contract in respect of *linked benefits* are covered by assets of a description specified in Appendix 3.

12. 15 of, and Annex B to, Appendix 4 **specify** the reductions that should be applied to the aggregate value of a *non-directive incorporated friendly society*'s assets for the purposes of the determination of the society’s *required margin of solvency* taking account, amongst other matters, of *permitted asset* and *counterparty exposure limits* and *excess concentration with a number of counterparties* (see 20 to 22).

B - Systems of control

Importance of adequate

controls

14. The investments a *friendly society* makes on behalf of its *policyholders* are an important area of its operations: the transactions may be large in relation to other areas of the society's business; and the effects on the society arising from negligence, error or irregularity could be significant. It is therefore important for a society to have preventative controls in place. The nature of those controls will vary with the size and nature of the society and whether or not it makes use of complex investment instruments such as *derivative contracts*. The following guidance on the systems of control over investments should be considered within the overall context of the guidance in Annex 3.

15. The systems of control over investments of societies will generally include the following features:

(a) documentation: this is usually in the form of the investment policy (see 17 to 23);

(b) a comprehensive management information system (see 24); and

(c) adequate operational controls over investments (see 25 to 27).

16. Additional considerations for *friendly societies* which make use of *derivative contracts* are included in C (see 31 and 32).

Investment policy – general

17. It is important that the *committee* gives consideration to documenting the investment policy and takes the necessary steps to ensure that the current investment policy is being applied, and that there are systems of control which would result in the *committee* being consulted before any decision is made which may not be in accordance with the current policy. In establishing the policy a *committee* will need to take account of these rules, any requirements in the society's registered rules and advice from the *appropriate actuary* or from the person or persons appointed to perform the *actuarial function*.

18. The *committee* should ensure that the society's investment policy is one which is appropriate for the society's type of business and its business plans. The policy needs to be appropriate to the size and nature of the society, and recognise changing market circumstances and be reviewed and revised as necessary from time to time. Where a *friendly society* instructs an investment adviser to make investments for it, the society's investment policy should be reflected in any contracts or agreements made with the organisation engaged to invest the funds of the society.

Investment policy of a society doing linked long-term business

19. The *committee* of a society which has been authorised to write *class* III business (linked long-term), will need to ensure that the investment policy with respect to the assets of its linked long-term funds takes into account fully the requirements of the rules in chapter 4.

Investment policy of a non-directive incorporated society - exposure limits

20. The *committee* of a *non-directive incorporated friendly society* should consider whether to include limits in its investment policy on the following matters:

(a) the society's *exposure* to particular assets, taking the provisions and limits in Annex B to Appendix 4 (see 12) into account; and

(b) the society's *exposure* to particular *counterparties* taking the limits in B2 of Annex B to Appendix 4 into account (see also 22).

21. The *committee* of a society which has, or is likely to have, significant aggregate exposures to one or more *counterparties* will need to ensure the society has appropriate procedures in place for assessing the creditworthiness of those *counterparties*. The *committee* may, as a result of the assessments, consider it prudent to set lower internal limits than those in Annex B to Appendix 4. The *committee* of a society which uses a third party to manage some of its investments should ensure that for monitoring purposes (see 24) the exposure to a particular *counterparty* in the funds under third party management is aggregated with the *exposure* to that *counterparty* in the funds managed by society staff.

22. In considering counterparty exposure limits, and for the purposes of monitoring aggregate *exposures* to particular *counterparties* (see 24), the *committee* will need to take into account the requirements in B13 to B15A of Annex B to Appendix 4. These provide for the aggregation of *exposures* arising from all types of investment in or with a *counterparty*, together with the value of all rights against that *counterparty* (subject to the exceptions in B14 and B15 of Annex B to Appendix 4) in each case up to the permitted asset exposure limits. The *committee* should also take into account the provisions of B16 of Annex B to Appendix 4 with respect *to excess concentration with a number of counterparties*. The *committee* will need to remember that the permitted *exposure* limits set out in Annex B to Appendix 4 represent the maximum amounts which can be valued for solvency purposes.

Exposure limits - additional considerations

23. The *committee* of a *non-directive incorporated friendly society*, particularly if it makes use of the powers under section 14 of the *1992 Act*, should consider whether, in addition to any policy limits arising from the *exposure* and concentration provisions in Annex B to Appendix 4 (see 20 to 22), internal policy limits for aggregate exposures to certain categories of assets should be included in the investment policy. The limits for certain categories of assets will need to take account, where applicable, of rule 4.12(1) (see 9). In addition the level of the society's free assets should be taken into account, bearing in mind the possibility that such assets might in future be needed to cover *insurance liabilities* or minimum margin of solvency.

Management information

24. It is important for a society to have adequate monitoring and reporting arrangements commensurate with the size and nature of the investment activities. The management information needs to be designed to: enable monitoring against policy limits (and statutory limits where applicable); help assess, in conjunction with the inspection function, the effectiveness of existing operations and controls over the management of investments; and provide a basis on which to determine future investment policy. In this context a *committee* will need to ensure a record of investment decisions, and who made them, is kept for reference purposes. Reports should be provided at regular intervals to the society's *committee* and senior management; frequent reporting being essential where material investment transactions are regularly made and/or where complex investment instruments such as *derivative contracts* are being used.

Operational controls

25. The operational controls necessary for a satisfactory control system will vary with the size and nature of the society, the investment strategy and whether third parties are used to manage the investments (see 26). The control system will need to be sufficient to match the complexity of the investment instruments being used. Controls need to be designed to ensure:

(a) the safeguarding of the assets of the society;

(b) compliance with the documented investment policy;

(c) investment deals are performed in an orderly and efficient manner; and

(d) the risk of loss from negligence, error or irregularity is minimised.

Third party investment managers

26. Where a third party has been appointed to manage part or all of a society's investments, the *committee* should be satisfied that the third party is able to comply with, and adhere to, the society's investment policy criteria and policy limits. In addition the *committee* will need to be satisfied that there are appropriate and effective controls in place. This is particularly important for an *incorporated friendly society* if the investment manager holds funds on its behalf. Before appointing such a third party, or in reviewing the appointment of the existing investment manager, the *committee* will need to be satisfied as to the following:

(a) the standing of the third party, including whether it is subject to a regulatory regime;

(b) compliance by the third party with the parameters the *committee* considers essential for the society's investment manager. Such parameters might include: performance requirements, minimum staff size (e.g. so that there are sufficient staff to allow for adequate segregation of duties, particularly if complex investment instruments such as derivatives are to be used) and capitalisation requirements;

(c) the terms of the agreement with the third party:

(i) that the agreement sets out clearly the parameters within which the third party may operate, in particular:

- does it take account of the relevant legislative constraints?

- does it take account of the society's investment policy criteria and policy limits?

(ii) that the agreement provides adequate safeguard for the society in the event of negligence, error or irregularity by the third party;

(d) the management information (see 24) to be provided by the third party, in particular is the information sufficient for the *committee* to be able to assess performance and monitor compliance with legislative constraints, investment policy criteria and policy limits.

27. The service provided by the investment manager should not only be monitored throughout the year but should also be subject to more fundamental review on a regular basis.

Audit

28. Internal audit will have a role in the operation of the systems of control over investments. Internal audit may:

(a) advise on design of systems of control or improvements to existing systems

(b) assess the effectiveness of systems from time to time

(c) test compliance with existing procedures.

Committee responsibilities

30. The *committee* of a *friendly society* will need to assess the effectiveness of the arrangements for the systems of control over the society's investments (including where transactions are carried out by a third party on a society's behalf) drawing on the auditors' advice as appropriate, in order to satisfy the requirements of rule 3.1 on this aspect of their responsibilities.

C - Additional considerations for controls over derivative contracts

31. 13 to 15 of, and Annex B to, Appendix 4 includes specific provisions with respect to *derivative contract*s 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 *friendly society's required margin of solvency*. Annex 7 refers to *PRU* 4.3

which discusses the 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.

32. The *committee* of a society which uses *derivative contract*s will need to take all steps which are reasonable, taking into account the nature and scale of the use of derivatives, to ensure that:

(a) the nature of the derivatives being used and the related risks (including interest rate risk, foreign exchange risk and operational risk) are fully understood by management even where a third party manages derivative transactions as part of the investment management service supplied to the society;

(b) the investment policy document sets out the objectives and policies for the use of derivatives; there are documented exposure limits for: total exposure to, and/or volume of, derivative transactions; maximum exposures to, and/or volumes of, permitted types of derivative transactions; exposure to counterparties; and exposure to uncovered transactions; where a society's staff manage derivative transactions dealer limits for individual dealers will need to be documented;

(c) the society has control and/or monitoring procedures which:

(i) ensure that transactions are in line with the *committee's* policies and new types of instrument are not dealt with without prior consideration at *committee* level;

(ii) ensure the *committee* and senior management are provided regularly with statistics and information (appropriately summarised) on the trading volumes of derivatives by type of product including regular reports of all off-balance sheet transactions, mark-to-market position, contingencies and commitments; and

(iii) focus particular attention on uncovered transactions (which may only be undertaken in relation to assets which do not match technical provisions) so that in no circumstances is the minimum margin of solvency endangered nor are members' reasonable expectations adversely affected. Systems are needed which are adequate to prevent exposure to unacceptable volatile risks, and to monitor transactions with a frequency commensurate with volatility and risk. The systems in place need to be designed to trigger the society's strategy to hedge or close out a transaction whenever adverse movements or events threaten a significant worsening of the solvency position;

(d) where derivative transactions are managed by society staff:

(i) staff authorised to carry out derivative transactions are suitably qualified and competent to transact the range and type of transactions being undertaken and understand the nature of the exposures (including both *counterparty* and market risk) which the use of *derivative contracts* will create;

(ii) the resources (including staff resources) and systems are sufficient to cope with the volume and volatility of transactions undertaken. This applies to back office (e.g. accounting staff, record keepers), as well as front office (e.g. fund managers, dealers) systems;

(iii) control procedures include independent agreement and reconciliation of positions, independent checking of prices, agreement of profits to accounting profit, appropriate authorisation where dealing limits have been exceeded;

(iv) to ensure effective control, those with responsibility for the control systems in respect of derivative transactions are independent of the dealers; and

(v) senior managers have the capacity and resources to be able to analyse and monitor the risk of all derivative transactions undertaken both by individual transaction and in aggregate (including interest rate risk, foreign exchange risk, fraud, error, unauthorised access to confidential information and other operational risks). Basic monitoring information may be needed in a daily report to managers. Monitoring information (including that supplied by third party managers) will need to include mark-to-market information in respect of all outstanding derivative transactions, valuing derivatives and underlying assets hedged at their current market price to check whether instruments are fulfilling expectations; and

(e) there are adequately tested and approved valuation models which are used to value open positions and derivative instruments and that amendment to their programmes are controlled. Such models should include an appropriate test of the robustness of the portfolio to stress in changing investment conditions.

ATTACHMENT A TO ANNEX 3

BUSINESS PLANNING

Introduction

A1. The *committee* of a *friendly society* should be aware of the importance of having an integrated system for planning, budgeting, financial accounting, monitoring of actual against budget and feedback of results into management decisions and back into the planning process. However, just how sophisticated a *friendly society's* planning systems need to be will depend upon the size and nature of the *friendly society*'s operations. The information in this Annex is neither intended to be prescriptive of what elements of a *friendly society* should be included in its system of business planning, nor can it be comprehensive of all matters that might be appropriate to the business planning of a *friendly society* - there are other publications available on such matters. The information in this Annex is intended to be helpful to *committees* and management, in particular, in providing information on key elements of a full planning system which the *committee* and management of a *friendly society* need to consider before determining on or revising the *friendly society's* system of business planning and documented plans. The *committee* and management will need to decide on the appropriate planning horizon for their *friendly society*, consistent with the *friendly society's* circumstances and appropriate to the effective management of the risks the *friendly society* faces, including any risks that may arise from its own initiatives as well as those arising from the changing business environment.

A2. The key features of an integrated planning system include:

(a) clearly defined and documented short, medium and long-term planning, with clear allocation of responsibilities within the *friendly society* for the development, review and approval of plans, and the subsequent monitoring of performance against them;

(b) the conclusions, recommendations, financial projections and assumptions set out in any plan need to be based on adequate data obtained from internal and external sources, and by appropriate critical analysis;

(c) a range of possible outcomes need to be considered, relating to varying levels of risk and/or uncertainty, and the financial impact on a *friendly society's* solvency margin should be considered by the *friendly society's* actuary; and

(d) key indicators should be identified against which actual performance can be tracked. Actual data should be prepared on a basis consistent with the plan, to enable proper comparison to be made.

Strategic planning

A3. A corporate plan focusing on longer term strategic issues may be developed. Such a plan should be reviewed regularly in the light of experience and changing circumstances and could include elements of the *friendly society's* medium term planning, see A5. The key elements for a strategic plan include:

(a) views on the markets in which the *friendly society* competes or proposes to compete in;

(b) identification of the *friendly society's* strengths and weaknesses, market and other opportunities open to it, and threats to the *friendly society's* market and financial strength;

(c) the *friendly society's* strategic aims and the action which needs to be taken to achieve those aims;

(d) any major resource implications of the strategic aims - including for information technology, senior management and staff as well as financial implications; and

(e) financial projections - including cash flow forecasting and projections based on different assumptions (eg. on optimistic, pessimistic and expected bases).

A4. A corporate plan including a *friendly society's* strategic aims should not simply consist of a number of desirable aims, but should set out the processes whereby these will be achieved. It will then be important to monitor the extent of achievement of the specified action steps, so that, if necessary, appropriate corrective action may be taken.

Medium term planning

A5. The medium term planning of a *friendly society*:

(a) may provide for the setting, review and revision of medium term financial and other objectives, as appropriate, consistent with the *friendly society's* longer term strategic aims and targets; and

(b) as appropriate, may include new business activities, which need to be adequately researched, analysed and appraised in terms of feasability, financial returns and requirements for capital.

Short term planning

A6. Adequate short term financial and operating plans are necessary as a basis for measuring performance and taking tactical decisions. In general terms this means that a *friendly society's* short term planning will need to include the setting of an annual budget (which may include cash flow forecasting), against which actual performance can be monitored (see also 19(f) of Part I of this Annex.

Business continuity planning

A7. A *friendly society* will need to consider its arrangements to ensure continuity of business in the event of some unforeseen disaster such as a fire or bomb damage. A business continuity plan should, as appropriate, deal with the possibility of major computer hardware or software failure as well as other wider aspects such as premises, personnel and external communications. These arrangements should be regularly reviewed and tested to ensure that they work in practice.

Information technology

A8. Information technology (IT) will be a major feature of the business of a number of *friendly societies*. IT brings significant benefits to such *friendly societies*, but also brings considerable risks. The issues which the *committee* and management of a *friendly society* will need to address, as appropriate, include:

(a) the extent to which a *friendly society's* IT strategy is consistent with its longer term strategic aims;

(b) whether the procedures for evaluating significant IT investments are sufficiently comprehensive to ensure that the technical and business cases for the investments are clearly demonstrated;

(c) within the *friendly society*, at *committee* as well as operational level, there should be an appropriate allocation of responsibility for IT issues;

(d) the security of data and systems is of paramount importance, controls will therefore need to be in place to minimise the risk of unauthorised access or the loss of data. Such controls should cover not only centralised mainframe processing but also remote terminals and stand-alone or linked PCs;

(e) the exercise of strong control by the *committee* over the development of new or significantly modified IT systems. Appropriate technical and project management skills are likely to be required and a *committee* will need to determine whether it is appropriate to seek expert assistance from outside the *friendly society* in order to facilitate the process; and

(f) appropriate skills and experience are needed to enable the inspection function to assess the effectiveness of IT controls. The involvement of the inspection function in an advisory capacity during the development of significant new IT systems, will be needed to help ensure that appropriate controls are in place.

Human resources planning

A9. The *committee* and management of a *friendly society*, in particular one which has taken, or proposes to take, advantage of the opportunities afforded by the *1992 Act*, may need to consider the overall current and future human resources requirements. Such considerations include the planning for, and development of, human resources where a *friendly society* is proposing to enter a field of business activity with which it is not familiar. The matters on which the *committee* and management may need to be satisfied include that:

(a) the *friendly society* has identified its present and future staffing and skill requirements relative to its business activities and has defined recruitment, training and development plans to achieve them; and

(b) there are arrangements for securing the supply of appropriately skilled members of the *committee*, directors of controlled bodies, managers and staff.

ATTACHMENT B TO ANNEX 3

DOCUMENTATION OF SYSTEMS

Introduction

B1. The need for the documentation of systems is primarily twofold:

(a) whilst control systems might be operated satisfactorily for a time without documentation, the absence of documentation makes it impossible to ensure that the systems of control are maintained over time; and

(b) the *committee* and others (e.g. external auditors and those carrying out the inspection function) have specific responsibilities in respect of the control systems. The absence of documentation makes it impossible for those reviewing the systems to satisfy themselves that the controls being operated are those that have been authorised, that they are complete and that they are adequate for their purpose.

B2. Whilst the overall content of such documentation should be comprehensive (see B3(a)), it will of course vary from *friendly society* to *friendly society*, according to the nature and scale of business and may only need to be relatively simple for a small *friendly society* with few staff. The specific content of documents may also need to vary within a *friendly society* appropriate to the levels of staff for whose use it has been prepared. Documentation prepared for the *committee* and/or management (see also B4) may need to be wider in scope and to include a greater emphasis on controls, but less detail about operational procedures, than documentation for more junior staff. Documentation prepared for more junior staff will need to include detailed information about the procedures to be followed but may only need to cover the control procedures applicable to the work of the staff concerned.

Form of documentation

B3. The *committee* and management of a *friendly society* will determine the form of control system documentation to be adopted. They should, however, take into account a number of considerations about the documentation, including that:

(a) **it should be comprehensive:** and should cover all material aspects of the operations and business of the *friendly society*;

(b) **it should be integrated:** separate elements of the system should be interrelated and cross-referred in such a way that the system can be viewed as an integrated whole;

(c) **it should identify risks, and the controls established to guard against those risks:** the controls need to be identified and their purpose defined so that their effectiveness can be evaluated and so that the relationship and interdependency with other controls can be established;

(d) **it should attribute responsibility for operating the controls:** there need to be named persons or posts for each control operation, alternatives in case of absence and continuity of standards of control during absence;

(e) **it should state how the operation of the control is to be evidenced:** methods of evidencing include - signatures or initials; records and registers; retention of control documents; staff attendance records;

(f) **it should establish a comprehensive and unambiguous control discipline:** the instructions should be clear and precise, avoiding expressions in relation to control functions such as "normally" and "if possible";

(g) **it should be suitable for practical day to day use:** the separate specifications of controls should have a practical role in the review and improvement of systems, for example, through the inspection function;

(h) **it should be up to date:** there should be an accurate description of the system that has been established and is operating. When changes or modifications are made, the appropriate systems of control will need to be established <u>and</u> documented by the time the changes become operative; and

(i) **it should require confirmation of compliance:** managers of different areas of a *friendly society*'s business are key control points within the overall control system. They should periodically be required to confirm to the *committee*, to the best of their knowledge and belief, compliance of controls within the system which has been established.

B4. Documentation should not be restricted to "lower level" clerical and authorisation controls applied in transaction processing, but should also cover "high level" controls (see 15 of Part I of this Annex), including:

(a) powers to be exercised only by the *committee*, and powers delegated to others;

(b) the purpose, composition and reporting lines of *committee* member sub-committees and senior management to whom powers and responsibilities have been delegated;

(c) the role, responsibilities and reporting lines of *committee* members; and

(d) the timing, form and purpose of *committee* meetings and the mechanism whereby agreed *committee* strategies, policies and decisions are recorded and their implementation monitored.

Computer controls

B5. The documentation of computer controls need to be integrated within the overall documentation of a *friendly society*'s system of business control. Where operating manuals are provided by a computer supplier these can often form a useful part of a *friendly society*'s procedures documentation but it is unlikely that such manuals will be in a form which enables them to form part of the control documentation. The matters set out in B3 apply equally to the controls surrounding computer systems.

B6. There will be a number of key controls performed within the computer programs and a *friendly society* will need to ensure that it documents all such controls if reliance is being placed on them.

ATTACHMENT C TO ANNEX 3

SYSTEM OF INSPECTION AND REPORT

Purpose of the system

C1. The purpose of a system of inspection is:

(a) to provide a continuous appraisal for management and the *committee* as to the overall effectiveness of the control systems, including all proposed changes, and to recommend improvements where considered desirable or necessary;

(b) to determine whether the systems and controls established by the management and the *committee* have operated as laid down in the control documentation of the *friendly society* or *registered branch* and comply with policies, procedures, laws, regulations and any other requirements; and

(c) to assess whether financial and operating information supplied to management and the *committee* is accurate, appropriate, timely and complete.

C2. A *friendly society* should ensure that, in addition to coverage of operational activities, its system of inspection adequately covers the following areas - as appropriate to the scale and nature of the business:

(a) controls to verify the accuracy and completeness of returns and other information provided to the *FSA*;

(b) controls to ensure compliance with relevant statutory and regulatory requirements;

(c) broader management controls, such as controls over business planning, systems for monitoring and reporting on financial performance and other key business indicators;

(d) controls over new areas of business and other initiatives, whether carried out within the *friendly society* or through controlled bodies; and

(e) the "high level" controls referred to Part I of this Annex.

C3. The *committee* and management of a *friendly society* will need to satisfy themselves that the following considerations have been properly addressed within the context of the scale, range, complexity and pace of development of the *friendly society*'s business:

(a) the inspection function is independent of the functions it inspects in order to maintain its objectivity;

(b) sufficient resources are available to achieve the agreed objectives of the inspection function;

(c) qualifications, experience and training of individuals performing the inspection function are adequate in relation to the objectives; and

(d) the status and reporting relationship of the head of the inspection function is sufficient to maintain the independence and objectivity of the function. It is important to ensure that, in addition to regular reporting to management and the *committee* (see C5(f)), the head of the inspection function has the right of direct access to the highest level of management and the *committee*.

C4. An audit sub-committee can have a key role to play in controlling the work of the inspection function and receiving its reports. The role of the audit sub-committee is covered in more detail in paragraph 29 of Part I of this Annex.

Key elements of a system

C5. The key elements of a satisfactory system of inspection include:

(a) **Terms of reference:** these should be specified with precision and should include, amongst other matters, scope and objectives of the inspection function, access to records, powers to obtain information/explanations from staff, and reporting requirements. The terms of reference should be approved by management and the *committee*. The *friendly society*'s inspectors (or internal auditors) will require a wide-ranging access to records and documents, including material prepared for and by the *committee*. They will also need to be empowered to obtain information and explanations from staff at all levels, and *committee* members.

(b) **Risk analysis:** risks identified and the controls put in place by management to address those risks should be considered in each area or cycle of the *friendly society*'s business. The adequacy of the controls should be assessed. Weaknesses in control should be drawn to the attention of the *committee* or audit sub-committee and other senior *officers* of the *friendly society* as specified in the terms of reference. In this context risk factors may include more than just the risk of pecuniary loss, or error or mis-statement in the accounting records. As appropriate, reputational risk, and wider business and operational risk, may also need to be considered. Full consideration should be given to the high level controls in place within the *friendly society*. These include the controls referred to in 15 of Part I of this Annex and C2(e) - see also B4 in Attachment B of this Annex.

(c) **Inspection plan:** an inspection plan should be developed covering all aspects of the *friendly society's* business and which, in the opinion of the *committee*, satisfies the requirements of rule 3.1. The inspection function should focus in particular on those areas identified in the risk analysis as higher risk, taking into account the related inherent risk factors and controls in place. However, all areas of the *friendly society's* business should be covered over a set time frame and the inspection plan should identify the scope and frequency of the work to be carried out in each area. The plan should be reviewed and approved at *committee* level, or by the audit sub-committee on behalf of the *committee*, before work commences.

(d) **Detailed programmes:** these will set out the specific tests to be performed in each area of the inspection plan.

(e) **Working papers:** adequate working papers should be maintained to record audit planning and execution, principal findings and follow-up action. Amongst other matters, the papers should provide: evidence of the individual who performed the programmed work; how it was controlled and supervised; and record the conclusions reached - with cross-referencing to the reports made and action taken.

(f) **System of reporting:** the results of the work performed should be reported to senior management and any audit sub-committee and the *committee* in accordance with the terms of reference. Such reporting should be carried out on a regular and timely basis. Obviously serious matters should be raised immediately. The reports should briefly describe the area(s) covered, significant matters arising, recommendations and overall conclusions. Procedures should be established to make sure the recommendations have been implemented or non-implementation validly justified.

Reporting and review

C6. The *committee* and management of a *friendly society* need to satisfy themselves that the system of inspection is being properly carried out. In order to review the overall effectiveness of the inspection function, the *committee* needs to consider the following aspects:

(a) 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;

(b) adequacy and scope of planning and work performed, including the allocation of inspection effort to each area of the *friendly society's* business;

(c) frequency, quality and timeliness of reporting on matters arising from the inspections;

(d) consideration and resolution of points and recommendations raised, and reasons for any rejection of major points; and

(e) review of overall effectiveness of the inspection function.

ATTACHMENT D TO ANNEX 3

Report by the Committee of Management of [NAME OF *FRIENDLY SOCIETY*] under rule 3.1 of *IPRU(FSOC)*

In our opinion during the year ended__________________________, the requirements of rule 3.1 were* (complied with)/ (complied with except in the respects set out in the attached Schedule [A]).

Signed by:

___________________________________Chairman

___________________________________Chief Executive

Date______________________________

* Delete as appropriate

Schedule [A] to the Committee's report for the year ended ______________________under rule 3.1 of *IPRU(FSOC)*

1. Exceptions arising in previous years:

   (a) Remedied during 200_ [current report year]

   Under each appropriate heading provide a clear description of the exception, remedial action(s) taken and date of full rectification.

   (b) Exceptions not fully rectified during 200_ [current report year]

   Under each appropriate heading provide a clear description of the exception, the action(s) taken and/or remaining to be taken and timetable for completion.

2. Exceptions arising in 200_ [current report year]

   (a) Remedied during 200_ [current report year]

   Under each appropriate heading provide a clear description of the exception, remedial action(s) taken and date of full rectification.

   (b) Exceptions not rectified during 200_ [current report year]

   Under each appropriate heading provide a clear description of the exception, action(s) taken and/or to be taken and timetable for completion.

ANNEX 4

GUIDANCE ON MARGINS OF SOLVENCY AND THE GUARANTEE FUND

Introduction

1. This Annex gives guidance to *friendly societies* on the application of rules 4.1 to 4.7 which set out the requirements for maintenance of a *required margin of solvency* and a *guarantee fund*. It explains how different categories of *friendly societies* are affected. This Annex does not apply to *flat rate benefits business friendly societies*.

The required margin of solvency

2. Rule 4.1 provides that a *friendly society* which has permission to carry on *general insurance business* and/or *long-term insurance business* is required to maintain a margin of solvency of an amount prescribed in rules 4.2 to 4.10.

3. Rules 4.2 to 4.10 do not apply to any *friendly society* which does not have permission to effect new contracts of insurance and is only carrying out contracts of *long-term or general insurance business* which were effected before 13 September 1993. Such societies must maintain an excess of the value of the *friendly society's* assets over the amount of its liabilities.

4. A *friendly society's* failure to maintain a *required margin of solvency* would be an early warning sign of difficulty. The *FSA* would under *SUP* require the *friendly society* to submit a suitable restoration plan within a specified reasonable time and give effect to the plan. The *required margin of solvency* might be restored by, for example, tighter budgetary control, restriction of new business, reassurance arrangements or changes in investment mix.

4A. Guidance in PRU 2 Annex 2G (Guidance on applications for waivers relating to implicit items) is relevant to *friendly societies* applying for a waiver of rule 4.7(3) of *IPRU(FSOC)* under section 148 of the *Act* (Modification or waiver of rules).[12]

Guarantee fund

5. Rules 4.3 to 4.7 provide for the maintenance of the *guarantee fund*. The *guarantee fund* is generally one-third of the calculated *required margin of solvency*. For *non-directive incorporated friendly societies*, the *guarantee fund* should be not less than the amount set out in rules 4.5 and 4.6 and this is known as the *minimum guarantee fund*.

6. Failure to meet the *guarantee fund* requirement would be regarded as very serious. The *FSA* would require the *friendly society* to submit and effect a short-term financial scheme if a *friendly society's guarantee fund* or *minimum guarantee fund* falls below requirement. Reasonable time would be granted to have discussions and to convene a

[12] This paragraph comes into effect on 1 June 2002.

meeting, and this would be expected normally to be followed by immediate action, for example, increased contributions or reduced benefits.

Minimum Requirements

7 Chapters 4 and 5 which are based on the *insurance Directives*, set out the current solvency and valuation requirements for *friendly societies* carrying on *insurance business*. Rules of this type cannot take into account the individual needs of a particular *friendly society*, but should be regarded as an absolute minimum requirement which will be supplemented by explicit or implicit margins on the advice of the actuary.

8 There are some important modifications contained in Chapter 4 by way of relaxation of the requirements for *friendly societies* which are *non-directive registered friendly societies* in recognition of their different status or much smaller size. These modifications are:

(a) a *non-directive friendly society* which does not have permission to effect new contracts of insurance and is only carrying out contracts of *long-term* or *general insurance business*, which were effected before 13 September 1993, will not be subject to the specific margin of solvency requirements, as rules 4.2 to 4.10 are not applied to such *friendly societies* (rule 4.1);

(b) the requirement to have a *minimum guarantee fund* does not apply to a *non-directive friendly society* which is not incorporated (rule 4.4); and

(d) the limits placed on the extent to which certain assets may be taken into account in determining their value in the insurance fund apply only to *non-directive incorporated friendly societies* (15(1) of Appendix 4).

9. In addition to these modifications, the *FSA* has power under section 148 of the *Act* to direct that certain requirements do not apply to any particular *friendly society*, and there may be circumstances where the *minimum guarantee fund* may be varied in the case of certain *friendly societies*.

10. These waivers or modifications do not lessen the requirement for prudent management, and may be accompanied by conditions.

11.1 The requirements for the various categories are summarised below:

Non-Directive Incorporated Friendly Societies

11.4 Long-term business

(1) These may fall outside the EC requirements but fall within the scope of rule 5.1 and are required to be valued annually. The *required margin of solvency* is set out in rules 4.1 to 4.7. New *friendly societies* should have *margins of solvency* at least equal to the

appropriate *minimum guarantee fund*. Rule 4.5 specifies a *minimum guarantee fund* with a threshold of 100,000 Euro increasing in steps. This may be varied by the exercise of the *FSA's* power under section 148 of the *Act*.

(2) Accordingly, a *non-directive incorporated friendly society* carrying on *long-term insurance business* will be expected to meet the solvency margin requirement immediately following incorporation. However, a valuation at that date is not necessarily required unless that date would otherwise be a normal *valuation date*.

General insurance business

11.5 Similar considerations will apply in the case of *non-directive incorporated friendly societies* carrying on *general insurance business*. The *minimum guarantee fund* is 225,000 Euro. These societies are required to be valued triennially.

Other non-directive Friendly Societies

11.6 (1) *Non-directive registered friendly societies* which have permission to carry on *long- term* or *general insurance business* are within the scope of rule 4.1 and are required to be valued triennially.

(2) The margin of solvency requirements for these societies are set out in Chapter 4. However the specific requirements in respect of the maintenance of a *minimum guarantee fund* (rules 4.5 and 4.6) and 4.11 to 4.19 (including those in respect of matching and localisation) do not apply to them. These societies are also not subject to the admissibility limit rules in paragraph 15(1) of Appendix 4.

(3) Societies which do not have permission to effect new *contracts of insurance* and are only carrying out contracts of *long-term* or *general insurance business*, which were effected before 13 September 1993 are not required to maintain a specified margin of solvency. Such societies should maintain an excess of the value of the *friendly society's* assets over the amount of its liabilities. They will be required to carry out triennial valuations unless exempted under the *Act*. If any valuation nevertheless discloses a level of concern then the *FSA* may take appropriate remedial action.

12.1 Resilience Test

12.2 The resilience test is a requirement for prudent provision to be made against the effects of possible future changes in the value of assets on the adequacy of these assets to meet liabilities. This requirement is in paragraph 16 of Appendix 5 of *IPRU(FSOC)* and applies to the determination of the amount of *long-term liabilities*. A *friendly society* should for this purpose treat *INSPRU* 3.1.16G to *INSPRU* 3.1.26R as providing guidance on the scenarios that may be appropriate for this purpose. (Any additional reserve required by the resilience test is part of *mathematical reserves* and not a capital requirement).

12.6 The *friendly society* should also take account of the nature of the assets and liabilities. For example, a *friendly society* which has only unit linked business, some of which carries a guaranteed annuity rate, should not necessarily assume that equity values fall in applying tests for lower fixed interest rates. Indeed *friendly societies* should consider their resilience to a rise in equity values combined with falling interest rates.

12.7 The *FSA* also expects that *friendly societies* will continue to investigate a wide range of possible future investment scenarios for the purpose of their own stress testing and risk management.

Annex 5

GUIDANCE ON EXEMPTION FROM TRIENNIAL VALUATION

1 This Annex gives guidance to *friendly societies* who may wish to seek exemption from the requirement in rule 5.2 to cause an actuarial investigation to be carried out.

2 Rule 5.1 requires any *friendly society* with permission to carry on *long-term insurance business* which is an *incorporated friendly society*, to cause the *actuary* appointed to perform the *actuarial function* under the rules in *SUP* to carry out an annual investigation into the *friendly society*'s financial condition in respect of its *long-term insurance business*.

3 Rule 5.2 provides that any *friendly society* which carries on any *insurance business* which is not subject to the annual valuation requirement under rule 5.1 should cause the *appropriate actuary* to carry out an investigation into the financial condition of that *insurance business* at least once every 3 years. Generally this would be as at the 3rd anniversary of the 31 December when the previous valuation was due. The requirements in relation to this triennial valuation are set out in rule 5.2(1) to (6).

4 The *FSA* has power under section 148 of the *Act* to waive or modify the application of rule 5.2 to a particular *friendly society* (see *SUP*). This may include dispensing with the valuation requirement entirely or modifying it, e.g. to substitute a quinqennial valuation or to restrict the scope of the valuation to only part of the *insurance business*.

5 Notwithstanding the fact that a *friendly society* may have been exempted from the requirement to carry out an actuarial investigation under rule 5.2, there may be circumstances when the *committee* may, in order to comply with the FSA Principles for Businesses, nonetheless need to cause an actuarial valuation to be carried out.

6 Applications for exemption should be made as soon as possible after the *financial year* end for which valuation is due. Initial enquiries may be made before the end of the *financial year*.

7 An application form for a waiver or modification of rule 5.2 is set out below.

Attachment to Annex 5

PROFORMA APPLICATION

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

Dear Sir or Madam,

Request for dispensation from actuarial investigation

The_________(insert name of friendly society)__________hereby requests dispensation from the requirement to cause an actuarial investigation to be carried out as at under rule 5.2 of the FSA Interim Prudential Sourcebook for Friendly Societies for one or more of the following reasons -

(a) the purposes of the friendly society are such that (1)

____

(b) the nature of the friendly society's business is such that (1)

____

(c) the manner in which the friendly society's business is carried on is such that (1)

____

(d) the scale of the business is such that the contribution income for each year since the previous valuation date has been as follows,__________________the assets as at the valuation date are £ and no changes in rates of benefits or contributions have been made since the previous valuation date.

[I am also attaching a certificate signed by the friendly society's appropriate actuary supporting the friendly society's request for a dispensation (2)].

(Signed) Chief Executive

Notes

(1) Please provide details of why the friendly society is seeking dispensation;

(2) The actuary's certificate is optional - please delete this sentence if the certificate is not provided. If an actuary's certificate is to be attached it should be in the form set out overleaf.

[where supporting actuary's certificate is to be attached it should read as follows]

I have performed an initial investigation as follows:-

I am of the opinion that the friendly society's margin of solvency as at [ ] was/is likely to be in excess of the required margin of solvency and is expected to remain so for the foreseeable future and for so long as there is no significant change in the nature or volume of business transacted or in the nature or distribution of the assets held by the friendly society and I support the application on the ground(s) that

(Signed) Fellow of the of Actuaries

Annex 7

GUIDANCE ON THE USE OF DERIVATIVE CONTRACTS BY FRIENDLY SOCIETIES

Introduction

1. The main purpose of this Annex is to draw attention to the rules which cover whether a *derivative contract* has an admissible value which can count towards a *friendly society*'s solvency margin.

Approved derivatives contracts

2. An *approved derivative contract*, if held by a *friendly society* which maintains the *required margin of solvency*, in accordance with Part I of Chapter 4, may have an admissible value which can count towards a *friendly society*'s *required solvency margin*. However, any *derivative contract* which is a liability to a *friendly society* (whether or not it falls within the definition of an *approved derivative contract* and is held for the purposes specified in 13 of Appendix 4) will count as a liability for solvency purposes.

Information for the *FSA*

4. A *friendly society* which proposes to make use of *derivative contracts* for the first time is asked to inform *FSA* staff of its proposals. Societies should note that they are likely to be strongly discouraged from using *derivative contracts* unless they can demonstrate robust systems and controls and a full understanding of the implications of the arrangement.

Note of caution

5. You will no doubt be aware, from the publicity given to a number of cases, that the use of *derivative contract*s can, if not properly controlled, adversely affect the financial viability of an institution. It is important that any institution which decides to use such contracts has sufficient understanding at board/*committee* and senior executive level of the nature and risks of the *derivative contracts* it is proposed to use, to ensure there are effective systems in place to monitor and control the use of derivatives - including where derivative transactions are carried out by investment managers on behalf of the institution. The *committee* of a *friendly society* which is considering using *derivative contract*s will need to be satisfied that there is sufficient understanding at appropriate levels, and that effective control systems are in place, before the *friendly society* commences to use *derivative contracts*.