
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make amendments to Parts II to VII of the Friendly Societies (Insurance Business) Regulations 1994. They principally concern the valuation of assets and the determination of liabilities of societies for the purposes of the Friendly Societies Act 1992. They also amend Schedule 2 to the 1994 Regulations, concerning the determination of the required margin of solvency in respect of general business (*regulation 25*), regulation 51 of those Regulations, concerning the methods by which benefits payable to policyholders under linked long-term contracts of insurance may be determined (*regulations 22 and 27*), and regulations 53 and 56, concerning insurance statistics (*regulations 23 and 24*).

Regulations 2 and 3 further implement the Agreement on the European Economic Area signed at Oporto on 2nd May 1992 (O.J. No. L1, 3.1.94, p. 3) as adjusted by the Protocol signed at Brussels on 17th March 1993 (O.J. No. L1, 3.1.94, p. 572) by substituting for references to the “European Community” in regulations 17 and 18 (governing localisation of assets and exclusions from the matching and localisation rules) references to the European Economic Area.

Regulations 4 and 5 update the provisions for interpretation of Part IV, largely as a consequence of the changes to that Part.

Regulation 6 makes drafting changes to regulation 20 and new provision concerning the treatment under Part IV of contracts for the conversion of currency.

Regulation 8 introduces a new regulation 22A dealing with the valuation of certain sale and repurchase transactions.

Regulation 9 substitutes a new regulation 23, concerning the valuation of debts and other rights owed to a society. The main change is the introduction of provision for the treatment of “initial margin”.

Regulation 10 substitutes a new regulation 26 for the valuation of securities and beneficial interests in limited partnerships.

Regulation 11 substitutes a new regulation 27 for the valuation of beneficial interests in collective investment schemes.

Regulation 12 substitutes a new regulation 28 for the valuation of deferred acquisition costs.

Regulation 13 substitutes a new regulation 30 dealing with the valuation of derivative contracts.

Regulation 14 substitutes a new regulation 31 dealing with contracts and assets having the effect of derivative contracts.

Regulation 15 substitutes a new regulation 32 dealing with the extent to which certain assets can be taken into account for the purposes of valuation.

Regulations 16 and 18 make minor changes to regulations 33 and 37 concerning the treatment of general business liabilities.

Regulation 17 substitutes a new regulation 36 making provision for adverse changes.

Regulations 23 and 24 further implement the Third Life Directive (Council Directive [92/96/EEC](#) on the co-ordination of laws, regulations and administrative provisions relating to direct life assurance and amending Directives [79/267/EEC](#) and [90/619/EEC](#) (O.J. No. L360, 9.12.92, p. 1)) and the Third Non-Life Directive (Council Directive [92/49/EEC](#) on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life insurance and amending

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Directives [73/239/EEC](#) and [88/357/EEC](#) (O.J. No. L228, 11.8.92, p. 1)) so as to require societies to produce statements of commissions and gross claims (in addition to gross premiums).

Regulation 26 substitutes a revised Schedule 5 which makes provision for the calculations required by regulation 32.

Regulation 27 substitutes a revised Schedule 6 concerning the property and values which may be used for the determination of policyholder benefits under linked long-term contracts.

Regulation 28 makes transitional provision preventing the amendments made by the Regulations to regulation 51 (linked long term contracts) from applying to contracts entered into before the commencement of the Regulations.

Compliance Costs

Compliance Cost Assessments were prepared in respect of the Friendly Societies Act 1992 (Amendment) Regulations 1994, the Friendly Societies (Insurance Business) Regulations 1994 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and copies are available from the Secretary, Friendly Societies Commission, 15 Great Marlborough Street, London W1V 2LL. These assessments concluded that the cost impact of the Regulations was broadly neutral. These Regulations will not impose any new burden on business, and a further Compliance Cost Assessment has not been prepared.