EXPLANATORY MEMORANDUM TO

THE FRIENDLY SOCIETIES ACT 1992 (ACCOUNTS) (AMENDMENT) ORDER 2020

2020 No. 782

1. Introduction

1.1 This explanatory memorandum has been prepared by HM Treasury (the "Treasury") and is laid before Parliament by Command of Her Majesty.

2. Purpose of the Instrument

2.1 The purpose of this instrument is to make amendments to the Friendly Societies Act 1992 (the "1992 Act") to confer upon friendly societies a greater degree of flexibility to change from preparing annual individual and group accounts in accordance with International Financial Reporting Standards ("IFRS") to preparing individual and group accounts in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") accounting standards, where certain conditions are met.

2.2 The amendments contained in this instrument will mean that the duty of friendly societies to prepare annual individual and group accounts in accordance with certain accounting standards will mirror the corresponding duty of companies governed by the Companies Act 2006 (the "2006 Act").

3. Matters of Special Interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

Matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of the House of Commons relating to Public Business (English Votes for English Laws)

3.2 As the instrument is subject to negative resolution procedure there are no matters relevant to Standing Orders Nos. 83P and 83T of the Standing Orders of the House of Commons relating to Public Business at this stage

4. Extent and Territorial Application

4.1 The territorial extent of this instrument is the United Kingdom.

4.2 The territorial application of this instrument is the United Kingdom.

5. European Convention on Human Rights

5.1 The Economic Secretary to the Treasury, John Glen, has made the following statement regarding Human Rights:

"In my view the provisions of the Friendly Societies Act 1992 (Accounts) (Amendment) Order 2020 are compatible with the Convention rights."

6. Legislative Context

6.1 Friendly societies registered under the 1992 Act are incorporated entities and are registered for effecting and carrying out contracts of insurance.

6.2 Sections 69A and 69E of Part 6 (Accounts and Audit) of the 1992 Act govern the duty of friendly societies registered under the 1992 Act to prepare annual individual and group accounts.

6.3 This instrument amends sections 69A and 69E of Part 6 of the 1992 Act so that the duty of friendly societies to prepare annual individual and group accounts in accordance with certain accounting standards mirrors the corresponding duty of companies governed by the 2006 Act.

7. Policy Background

What is being done and why

7.1 In 2012, the Government amended the 2006 Act to allow companies the flexibility to choose which accounting standard to use when preparing their annual accounts. An insurer incorporated under the 2006 Act has the freedom to change from the IFRS to the UK GAAP accounting standard, should it so choose, so long as it has not changed to using the UK GAAP accounting standard in the period of five years preceding the first day of that financial year. A friendly society governed by the 1992 Act does not have the same flexibility as a company governed by the 2006 Act to switch from using the IFRS accounting standard to the UK GAAP accounting standard. In order for a friendly society to switch from using the IFRS to using the UK GAAP accounting standard, it must demonstrate a relevant change in circumstance, the threshold for which is high. Government intervention is necessary to amend the rules for friendly societies to ensure that they are aligned with the corresponding rules for companies.

7.2 The misalignment between the rules for friendly societies and the rules for companies has been brought to the Treasury's attention through engagement with the insurance industry. In light of planned changes to the IFRS accounting standard due to come into effect in 2021, a number of friendly societies have been considering whether it would be appropriate to now adopt the UK GAAP accounting standard. It has therefore become expedient in exercise of the power contained in section 102(1) of the 1992 Act to modify the relevant provisions of the 1992 Act for the purpose of assimilating the law relating to friendly societies to the law relating to companies.

7.3 This instrument aligns Part 6 of the 1992 Act with Part 15 of the 2006 Act with regard to the duty to prepare annual individual and group accounts in accordance with certain accounting standards, so that there are similar rules for companies and friendly societies. This has the intended effect of ensuring that a company registered under the 2006 Act does not have an advantage over a friendly society registered under the 1992 Act in being able to adopt an accounting standard more suited to its needs. Friendly societies will be afforded the same flexibility to change from preparing annual individual or group accounts in accordance with the IFRS accounting standard to preparing them in accordance with the UK GAAP accounting standard.

8. European Union (Withdrawal) Act/Withdrawal of the United Kingdom from the European Union

8.1 This instrument does not relate to withdrawal from the European Union and does not trigger the statement requirements under the European Union (Withdrawal) Act.

9. Consolidation

9.1 This instrument makes only minor textual amendments to sections 69A and section 69E of Part 6 of the 1992 Act. Consolidation is therefore not considered appropriate at this time.

10. Consultation outcome

10.1 The Treasury has consulted with the Association of British Insurers ("ABI"), whose members include friendly societies. The ABI and the friendly societies consulted are fully supportive of this instrument and its policy intent.

11. Guidance

11.1 The Treasury considers the scope and application of the amendments made by this instrument to be sufficiently clear and are not planning to issue any additional guidance.

12. Impact

12.1 There is no, or no significant, impact on business, charities or voluntary bodies, other than in relation to the accounting standard adopted by those incorporated as friendly societies under the 1992 Act. This instrument does not introduce any new regulatory burdens.

12.2 There is no, or no significant, impact on the public sector.

12.3 A full Impact Assessment has not been prepared for this instrument because, in line with Better Regulation guidance, the Treasury consider that the net impact on businesses will be less than £5 million a year. Due to this limited impact, a de-minimis Impact Assessment has been carried out.

13. Regulating Small Business

13.1 This instrument applies to (accounting) activities that are undertaken by small businesses.

13.2 The Treasury does not consider it necessary to take steps to minimise the impact of the amendments made by this instrument on small businesses (employing up to 50 people), as the amendments do not introduce any new regulatory burdens.

14. Monitoring & Review

14.1 The Economic Secretary to HM Treasury, John Glen, has made the following statement regarding monitoring and review:

"In my view, a monitoring and review provision is not appropriate for this instrument as it will have an impact of less than £5m on business and the costs of undertaking such monitoring and review would be disproportionate. Furthermore, the instrument does not introduce any new regulatory burdens for businesses."

15. Contact

15.1 Samuel Railton at the Treasury (Telephone: 020 7270 2431 or email: Samuel.railton@hmtreasury.gov.uk) can be contacted with any queries regarding the instrument.

15.2 Hannah Malik, Deputy Director for Insurance and Pensions Markets at the Treasury, can confirm that this Explanatory Memorandum meets the required standard.

15.3 The Economic Secretary to the Treasury, John Glen, can confirm that this Explanatory Memorandum meets the required standard.