Title: Friendly Societies Act 1992 (Accounts) (Amendment) Order 2020	De minimis assessment
SI No:	**Date: 06/07/2020**
Other departments or agencies:	**Type of regulation: Domestic**
Contact for enquiries: **Samuel Railton** Samuel.railton@hmtreasury.gov.uk **| 0207 270 2431**	**Date measure comes into force:** **01/10/2020**
Cost of Preferred (or more likely) Option: £6,734	**Net cost to business per year: -£1.84 m**

1. What is the problem under consideration? Why is government intervention necessary?

In 2012, the Government amended the Companies Act 2006 (the "Companies Act") to allow companies the flexibility to choose which accounting standards to use when preparing their accounts. An insurer incorporated under the Companies Act has the freedom to change from International Financial Reporting Standards (IFRS) to UK Generally Accepted Accounting Practice (UK GAAP) accounting standards, should it so choose, so long as it has not changed to using UK GAAP accounting standards in the period of five years preceding the first day of that financial year. Currently, friendly societies tend to use IFRS but are also able to use UK GAAP accounting standards. However, a friendly society, including a mutual insurer governed by the Friendly Societies Act 1992 (the "Friendly Societies Act"), does not have the same flexibility as an insurer governed by the Companies Act to switch from IFRS to UK GAAP accounting standards. In order to for a friendly society governed by the Friendly Societies Act to switch from IFRS to UK GAAP accounting standards, 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.

2. What are the policy objectives and the intended effects?

The purpose of this policy is to give friendly societies greater flexibility in their choice of accounting standards, allowing them to adopt a standard of accounting which best suits their business needs and practices. It is also intended to align the relevant provisions of the Friendly Societies Act with analogous provisions for companies contained in the Companies Act, so that there are identical rules regarding the choice of accounting standards for provision of accounts. This has the intended effect of ensuring that a business registered under the Companies Act does not have an advantage over a friendly society registered under the Friendly Societies Act, in being able to adopt an accounting standard more suited to its needs.

3. What policy options have been considered, including any alternatives to regulation? Please justify preferred option.

Option 1: Permit friendly societies to change their accounting framework no more than once every 5 years.

Option 2: Permit friendly societies to change their accounting framework every year.

Option 3: Do nothing/status quo.

The Government is minded to prefer option 1. Under option 2 there is potential for firms to switch standards more regularly, though there is no current indication of firms that would be willing to do this. Option 2 would also go further than changes made to the Companies Act, meaning that the legislative approach for companies and friendly societies would still be misaligned in this area. Option 1 will allow for consistency between the two sets of rules and allow friendly societies the freedom to adopt accounting standards appropriate for their business.

4. Please justify why the net impacts (i.e. net costs or benefits) to business will be less than £5 million a year.

To do this, please set out the following:

- What will businesses have to do differently?

Businesses will not have to do anything differently following the implementation of this change. The provision will allow friendly societies a flexibility that they do not currently have in that they may choose to adopt UK GAAP accounting standards in the preparation of their accounts for reasons other than a relevant change in circumstance. Should a business choose to adopt UK GAAP accounting standards, it would need to prepare its accounts in accordance with these standards.

How many businesses will this impact per year?

There are 143 friendly societies registered under the Friendly Societies Act. Of these, 91 registered friendly societies are undertaking regulated activities and are authorised by the Financial Conduct Authority to do so. All 143 registered friendly societies will be eligible to change their accounting standards following the change introduced by this Statutory Instrument (SI).

On the basis of stakeholder views, we have assumed that a range of 85% to 100% of the 91 registered friendly societies undertaking a regulated activity are likely to switch away from IFRS once the SI has come into force.

- What is the direct cost/benefit per business per year?

Friendly societies will be able to make a commercial decision as to which framework of accounting standards best suits their business.

A single friendly society making the decision to adopt a different set of accounting standards would face a one-off transitional cost in switching from IFRS to UK GAAP accounting standards. We estimate that the average transitional cost for firms switching to preparing its accounts in accordance with UK GAAP accounting standards would be £400. Utilising the upper boundary of our assumption as to how many firms are likely to use this new flexibility to adopt different accounting standards, the total cost would be £36,400 (91 friendly societies undertaking regulated activities x £400). This would be a one-off cost. Annualised over a 5-year period (£36,400/5) this cost is £7,280 a year. Using the middle boundary (92.5%) for the estimated number of firms making this change, we estimate that the total annual cost will be £6,734 (£7280x 92.5%) over a 5-year period.

In switching to UK GAAP accounting standards, a friendly society carrying out a regulated activity would no longer be required to apply IFRS 17 (a new standard under IFRS due to come into effect in 2021), and would avoid the associated costs for account preparers. We estimate that the total on-going cost for friendly societies needing to implement IFRS 17 would be £2 million per year, with an average annual cost for a single firm of £21,978 per year. This assumes that the 91 friendly societies undertaking regulated activities would be affected. Using the middle boundary (92.5%) for the estimated number of firms making this change, we estimate that the total annual benefit would be £1.85 million (£2m x 92.5%).

Annual net impacts = £6,734 - £1.85m = - £1.84 million. This is an annual net benefit of £1.84 million.

5. Please confirm whether your measure could be subject to call-in by BRE under the following criteria. If yes, please provide a justification of why a full impact assessment is not appropriate:

a) Significant distributional impacts (such as significant transfers between different businesses or sectors)

No.

b) Disproportionate burdens on small businesses

No. This SI potentially reduces burdens for smaller firms in allowing them to adopt an accounting standard that best suits their business needs.

c) Significant gross effects despite small net impacts

No.

d) Significant wider social, environmental, financial or economic impacts

No.

e) Significant novel or contentious elements

No. This SI fixes a deficiency in the Friendly Societies Act and brings the relevant provisions in the Friendly Societies Act into line with existing policy intentions for companies, as contained in the Companies Act.

Sign-off for de minimis assessment

I have read the de minimis assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

SCS of Insurance and Pensions Markets

Signed: ***Becky Morrison*** Date: 08/04/2020

SCS of Better Regulation Unit

Signed: ***Johanna Cowan*** Date: 09/04/2020

Sign-off for de minimis assessment: Minister

I have read the de minimis assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed: ***John Glen*** Date: 06/07/2020

Further information sheet

Please provide additional evidence in subsequent sheets, as required.