



*Life Insurance Act 1995*

**PRUDENTIAL RULES No 45**

**JOINT INVESTMENTS OF FRIENDLY SOCIETY APPROVED BENEFIT FUNDS (S 16H(4A)(b))**

I, Graeme John Thompson, a delegate of the Australian Prudential Regulation Authority (“APRA”), under subsection 252(1) of the *Life Insurance Act 1995* (the “Act”), MAKE the following Prudential Rules for the purposes of paragraph 16H(4A)(b) of the Act (section 16H modifies the application of section 34 of the Act in relation to friendly societies):

***Application***

1. A friendly society may only invest assets of 2 or more approved benefit funds in a single investment (a “joint investment”), in accordance with the following rules.

***Joint investment accounts***

2. The friendly society must:
  - (a) establish a joint investment account in the records of each contributing fund that identifies each contributing fund's contribution; and
  - (b) keep a joint investment register that records all transactions of each joint investment and of each contributing fund's contribution in each separate joint investment; and
  - (c) reconcile the aggregate of the joint investment accounts kept in the records of each contributing fund with the friendly society's joint investment register.
3. The friendly society must ensure that:
  - (a) any joint investments are readily able to be liquefied; and
  - (b) investment decisions in respect of one contributing fund do not directly affect the asset exposures of any other contributing fund.

***Allocation of income and expenses***

4. The friendly society must allocate:
  - (a) the income received from the joint investments to the contributing funds equitably in accordance with their respective contributions; and
  - (b) any direct costs of redemption to the contributing funds in accordance with their respective contributions.

***Reconciliation of accounts***

5. Subject to rules 6 and 7, the friendly society must reconcile the joint investment accounts kept in the register of each contributing fund with the friendly society's joint investment register at least once every 7 days, or at such other time as permitted by APRA.
6. If the joint investment is an investment relating to unitised contracts, the friendly society must carry out the reconciliation referred to in rule 5 at least as frequently as the unit prices in relation to the relevant contract are quoted, but in any event, at least once every 7 days or at such other time as permitted by APRA.
7. In the case of an investment in respect of which a friendly society conducts a mark to market exercise on a more frequent basis than once every 7 days, the reconciliation referred to in rule 5 must be carried out at least as frequently as the mark to market exercise.

This instrument commences on the transfer date (as defined in section 2 of the *Financial Sector Reform (Amendments and Transitional Provisions) Act (No. 1) 1999*).

Dated ..... June 1999

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G J Thompson  
Chief Executive Officer  
Australian Prudential Regulation Authority

## EXPLANATORY STATEMENT

Issued by the Australian Prudential Regulation Authority

*Life Insurance Act 1995*

Prudential Rules Number 45

Subsection 252(1) of the *Life Insurance Act 1995* (the “Act”) provides that the Australian Prudential Regulation Authority (“APRA”) may, in writing, make rules prescribing all matters required or permitted by the Act to be prescribed by Prudential Rules. Subsection 252(2) of the Act provides that such Prudential Rules are disallowable instruments for the purposes of section 46A of the *Acts Interpretation Act 1901*.

This Prudential Rule is made for the purposes of subsection 16H(4A) of the Act. This subsection provides that a friendly society may invest assets of 2 or more approved benefit funds in a single investment provided that the rules of each benefit fund allow for such an investment and that the investment complies with the Prudential Rules. A health insurance benefit fund regulated under the *National Health Act 1953* (Cth) is not an approved benefit fund for the purposes of the Act. A health insurance benefit fund must not, therefore, contribute to a single investment. Similarly, a joint investment must not be undertaken between one or more approved benefit funds and the management fund.

The single investment is referred to as a *joint investment*, each of the approved benefit funds with an interest in the joint investment is referred to as a *contributing fund* and the assets of a fund that are invested in the joint investment are referred to as the benefit fund’s *contribution*. That is, an approved benefit fund’s contribution at any time is its interest in the joint investment, both in terms of initial investment and subsequent transactions.

This Prudential Rule specifies various accounting procedures for the maintenance and administration of joint investments. The overall aim of these procedures is to maintain accountability and transparency between the joint investment and the contributing benefit funds. These procedures are necessary in order that the principles enunciated in subsection 34(3) of the Act are met. That principle is that a friendly society must keep the assets of each approved benefit fund distinct and separate from:

- the assets of any other approved benefit fund; and
- from any other assets of the friendly society.

Any joint investments must be able to be readily liquefied. The reason for this is that each contributing approved benefit fund must be able to redeem its investment in an expeditious manner with no undue effect on other contributing approved benefit funds. For example, a number of approved benefit funds investing in a single property would not be an appropriate joint investment, whereas a joint investment in listed shares, government securities, bank or commercial bills would be appropriate as there exists a ready secondary market for such investments.

The operation of the joint investment must not result in the asset exposures of a contributing approved benefit fund being affected by the investment decisions of another contributing approved benefit fund. This precludes, for example, management of joint investments by way of an internal unitised pool of joint investments; as transactions between the pool and a given contributing benefit fund would alter the proportion of the different pooled assets attributable to each other contributing benefit fund participating in the pool.

A friendly society is permitted to use the services of a custodian in relation to a joint investment, provided that the joint investment is invested in the name of the friendly society.

Section 45 of the Act provides that a friendly society must not transfer an asset from one approved benefit fund to another approved benefit fund, except in the situation where the asset is transferred at fair value or in accordance with Divisions 3, 4 or 6 of Part 4 of the Act. The operation of the joint investment is not to contravene section 45 of the Act, such that loans must not be created between contributing approved benefit funds.

The Prudential Rule specifies prescribed time periods within which the benefit fund accounts must be reconciled with the investment register. In the main, the reconciliation process must be performed at least every 7 days (or at other such time as permitted by APRA), except where the investment relates to unitised contracts or where the society conducts a mark to market exercise where more frequent reconciliation may be required. APRA may permit a friendly society to conduct the reconciliation process less frequently than once every 7 days, where APRA is satisfied that the friendly society's joint investment is relatively stable with insufficient transactions to warrant weekly reconciliation.