INTEGRATED PRUDENTIAL SOURCEBOOK (INSURERS AND OTHER AMENDMENTS) (CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2004

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 138 (General rule-making power);
(2) section 141 (Insurance business rules);
(3) section 150(2) (Actions for damages);
(4) section 156 (General supplementary powers);
(5) section 157(1) (Guidance); and
(6) section 340 (Appointment).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force as follows:

(1) the amendment to rule 5.11(1), and rule 5.11(1A), of IPRU(FSOC) in Annex F come into force on 31 December 2005;

(2) the remainder of this instrument comes into force on 31 December 2004.

Amendments to the Handbook

D. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Senior Management Arrangements, Systems and Controls (SYSC)	Annex A
Threshold Conditions (COND)	Annex B
General provisions (GEN)	Annex C
Interim Prudential sourcebook for Banks (IPRU(BANK))	Annex D
Interim Prudential sourcebook for Building Societies (IPRU(BSOC))	Annex E
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex F
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex G
Insurance: Conduct of Business sourcebook (ICOB)	Annex H
Market Conduct sourcebook (MAR)	Annex I
Authorisation manual (AUTH)	Annex J
Supervision manual (SUP)	Annex K
Enforcement manual (ENF)	Annex L
Credit Unions sourcebook (CRED)	Annex M
Electronic Money sourcebook (ELM)	Annex N
Glossary	Annex O

Citation

E. This instrument may be cited as the Integrated Prudential Sourcebook (Insurers and Other Amendments) (Consequential Amendments) Instrument 2004.

By order of the Board
16 December 2004

Amended by Addendum
22 December 2004

Annex A

Amendments to Senior Management Arrangements, Systems and Controls

In this Annex, underlining indicates new text.

Appendix 1.1 Matters reserved to a Home State regulator (see SYSC 1.1.1R(1)(b) and SYSC 1.1.1R(1)(c)

…

1.1.8 G Examples of how the *FSA* considers that *SYSC* 3 will apply in practice to an *incoming EEA firm* (see *SYSC* 1.1.4G) are as follows:

(1) The Integrated Prudential Sourcebook (*PRU*) (with the exception of *PRU* 7.6.33R on the payment of financial penalties) and the Interim Prudential sourcebook (insurers) (*IPRU(INS)*) (with the exception of rules 3.6 and 3.7) do~~es~~ not apply to an *insurer* which is an *incoming EEA firm*. Similarly, *SYSC* 3 does not require such a *firm:*

(a) …

(b) to establish systems and controls for compliance with that Interim Prudential sourcebook or *PRU* (*SYSC* 3.2.6R); or

…

…

Annex B

Amendments to the Threshold Conditions

In this Annex, underlining indicates new text and striking through indicates deleted text.

…

2.4.2 G …

(3) High level systems and control requirements are in *SYS*C. Detailed financial resources and systems requirements are in the relevant section of *IPRU* or *PRU*, including specific provisions for particular types of *regulated activity*. …

2.4.3 G (1) …

(2) … The *FSA*'s approach to the consolidated supervision of a *firm* and its *group* is in the relevant part of *IPRU* or *PRU*.

2.4.4 G (1) …

(2) Relevant matters may include but are not limited to:

(a) whether there are any indications that the *firm* may have difficulties if the application is granted (see *COND* 2.4.6G), at the time of the grant or in the future, in complying with any of the *FSA*'s prudential *rules* (see the relevant part of *IPRU* or *PRU*);

…

…

...

2.4.6 G (1) …

(2) …

(a) it has a well constructed business plan or strategy plan for its product or service which demonstrates that it is ready, willing and organised to comply with the relevant requirements in *IPRU*, *PRU* and *SYSC* that apply to the *regulated activity* it is seeking to carry on;

…

…

…

2.6.5 G (1) …

(2) A *person* seeking to carry on *insurance business* in the *United*

Kingdom must have assets in the *United Kingdom* to a value specified in ~~*IPRU (INS)*~~ *PRU*. …

(3) … This deposit will be subject to provisions in ~~*IPRU (INS)*~~ *PRU* 7.6.

Annex C

Amendments to the General provisions

In this Annex, underlining indicates new text.

…

2.2.7 R In the *Handbook* (except *IPRU*, unless otherwise indicated):

(1) an expression in italics which is defined in the *Glossary* has the meaning given there; and

(2) an expression in italics which relates to an expression defined in the *Glossary* must be interpreted accordingly.

Annex D

Amendments to the Interim Prudential sourcebook for Banks

In this Annex, underlining indicates new text and striking through indicates deleted text.

GN: Section 2

…

2 THE PRUDENTIAL SOURCEBOOK FOR BANKS: APPLICATION AND PURPOSE

APPLICATION

1. ~~The Prudential Sourcebook for banks sets out the Financial Services Authority's ("the FSA's") detailed prudential standards and related notification requirements applying to *banks* authorised under the Financial Services and Markets Act 2000 ("the Act"). The sourcebook sets out material relevant to all *banks* (see definition in section 3.5 of Chapter GN). However, most of the material applies only to *UK banks*.~~ From 31 December 2004 the Financial Services Authority (the FSA) has begun the phased implementation for *banks* of its Integrated Prudential Sourcebook (*PRU*). This will eventually replace the set of sectoral prudential sourcebooks applied on an interim basis, including this one applying to *banks (IPRU(BANK))*. Over the transition period until all the provisions of *IPRU(BANK)* have been revoked, the FSA's detailed prudential standards (and some related notification requirements) applying to *banks* authorised under the *Act* are set out in a combination of *PRU* and *IPRU(BANK)*. Where a chapter of *IPRU(BANK)* has been substantively affected by the implementation of *PRU*, the introductory section of that chapter has been amended to indicate in broad terms how the chapter's provisions relate to those in *PRU*. *Banks* are responsible for ensuring that they meet all the prudential standards applying to them in both *PRU* and *IPRU(BANK)* during the transitional period.

2. *IPRU(BANK)* sets out material relevant to all *banks* (see definition in section 3.5 of Chapter GN). However, most of the material applies only to *UK banks*. The only parts of ~~the sourcebook~~ *IPRU(BANK)* which apply to *EEA banks* are the rules and guidance on liquidity (Rule 3.3.15 and Chapter LM) and fraud (Chapter FR).

PURPOSE

3. …

4. The purpose of the prudential standards ~~set out in this sourcebook~~ applying to *banks* is to ensure that banks maintain capital and other financial resources commensurate with their risks and appropriate systems and controls to enable them to manage those risks. The FSA requires in particular that banks maintain adequate capital against their risks: capital enables banks to absorb losses without endangering customer deposits; that they maintain adequate liquidity; and that they identify and control their large credit exposures - which might otherwise be a source of loss to a bank on a scale that might threaten a bank's

solvency.

5. ~~This sourcebook,~~ The prudential standards applying to *banks*, together with ~~the separate prudential sourcebook~~ those separately applying to building societies, also implement~~s~~ EC directives setting out prudential standards as these apply to *credit institutions*. Where a bank is part of a financial conglomerate, it will also be subject to additional rules and guidance set out in *PRU* 8.4. A bank with an ultimate non-EEA parent may also be subject to some provisions in *PRU* 8.5. And all banks that are part of a group are subject to the general provisions in *PRU* 8.1.

POWERS AND GENERAL APPROACH

6. …

7. The prudential standards ~~in this sourcebook~~ applying to *banks* are set out in the form either of rules and evidential provisions which the FSA has made under Part X of the Act; or of guidance setting out the FSA's expectation of how *banks* should comply with these rules and with the related Principles for Businesses and how they should meet the relevant Threshold Conditions (see PRIN and COND). Where a *bank* complies with this guidance, the FSA will normally hold it to be in compliance with the relevant rules and to meet the relevant Threshold Conditions. ~~The FSA's~~ *IPRU(BANK)*'s rules and evidential provisions are set out in Section 3 of this chapter.

8. ~~This sourcebook applies to banks on an interim basis pending the preparation and implementation of a single Prudential Sourcebook applying to all firms regulated by the FSA - termed the Integrated Prudential Sourcebook.~~ In developing ~~the interim sourcebook~~ *IPRU(BANK)*, the FSA has drawn on the standards which formerly applied to *banks* authorised under the Banking Act 1987. The FSA has expressed most of the equivalent standards in ~~this sourcebook~~ *IPRU(BANK)* as guidance, identifying to which rules the guidance refers. Only the requirements set out in Section 3 of this chapter take the form of rules. Each chapter sets out in the opening paragraphs the rules, including the Principles for Businesses and Threshold Conditions, to which the guidance refers.

9. This approach has been adopted, after consultation, as appropriate for material that will apply on an interim basis only. It is the FSA's intention in developing ~~its Integrated Prudential Sourcebook~~ *PRU* to make fuller use of its rule-making powers to express its detailed prudential standards.

10. ~~This sourcebook~~ *IPRU(BANK)* also sets out rules and guidance on the information related to prudential standards which *banks* should notify to the FSA. The FSA needs to be informed of certain information by *banks* if it is to monitor compliance with its requirements. The rules and guidance in ~~this sourcebook~~ *IPRU(BANK)* supplement, in respect to *banks*, the FSA's general notification requirements set out in the Supervision Manual [see SUP 13].

…

GN: Section 3

…

3 THE FSA'S PRUDENTIAL RULES FOR BANKS

…

3.4.12R A *bank* must send to the *FSA*:

(a) a copy of the policy statement it has first adopted in compliance with each of *IPRU (BANK)* 3.4.1R, ~~3.4.3R~~, 3.4.5R and 3.4.7R as soon as possible after adopting it; and

(b) …

…

LM: Section 1

MISMATCH LIQUIDITY

1 INTRODUCTION

1.1 Legal sources

1 **…**

See ch GN s3

(c) The rules requiring a bank to maintain adequate liquidity appropriate to the nature and scale of its business, and to ~~provide the FSA with a statement of its liquidity policy~~ set out its policy on liquidity risk management in a written statement.

…

2 As part of the phased implementation of the Integrated Prudential Sourcebook (*PRU*), provisions in *PRU* 1.2 and *PRU* 5.1 relating to a firm's systems and controls for liquidity risk have been introduced, superseding – and leading to the revocation or amendment of – material formerly in this chapter. This chapter and chapter LS sets out the FSA's framework for monitoring the liquidity of banks authorised for the purposes of the Act to determine whether the above requirements are met.

…

…

10 POLICY STATEMENTS

See ch GN s3 1 In order to provide a framework for monitoring liquidity on a basis appropriate to each bank the FSA has made a rule requiring each bank to maintain ~~provide~~ a statement of its liquidity management policy (see rule 3.4.3).

…

See PRU 5.1 4 The policy statement should consider the management of liquidity in both normal and abnormal circumstances. In particular, it should include details of the bank's contingency funding plan maintained as required by *PRU* 5.1.86E. ~~A bank should consider how it would react to severe funding difficulties affecting it:~~

(a) The statement should also include ~~specifically~~:

(i) who is responsible for liquidity management on a day to day basis~~, and who is responsible for crisis management in the event of a liquidity crisis~~; and

(ii) what are likely to be the most reliable sources of funds in normal ~~and crisis~~ circumstances. ~~;~~

~~(iii) what warning indicators are used as signs of an approaching crisis; and~~

~~(iv) what action is planned to pre-empt it.~~

…

LS: Section 1

…

STERLING STOCK LIQUIDITY

1 INTRODUCTION

1.1 Legal sources

1 …

See ch GN(3)

(c) The rules made to require a bank to maintain adequate liquidity appropriate to the nature and scale of its business, and to ~~provide the FSA with a statement of its liquidity policy~~ set out its policy on liquidity risk management in a written statement.

…

2 As part of the phased implementation of the Integrated Prudential Sourcebook (*PRU*), provisions in *PRU* 1.2 and *PRU* 5.1 relating to a firm's systems and controls for liquidity risk have been introduced, superseding – and leading to the revocation or amendment of – material formerly in this chapter. This chapter and chapter LM sets out the FSA's framework for monitoring the liquidity of banks authorised for the purposes of the Act to determine whether the above requirements are met.

…

LS: Section 3

3 MAIN FEATURES OF THE POLICY

…

3.1 The main features of the sterling stock liquidity policy

…

2 A sterling stock liquidity bank should include in the statement of its liquidity management policy ~~notified to the FSA~~ its intention to:

…

LS: Section 4

4 THE MEASUREMENT OF STERLING STOCK LIQUIDITY

…

4.3 The wholesale sterling net outflow limit and sterling stock 'floor'

4.3.1 General

…

6 A bank's limit and 'floor' should be those included in its most recent liquidity policy statement ~~notified to the FSA~~ unless otherwise agreed in writing with the FSA.

…

LS: Section 5

5 MONITORING LIQUIDITY

5.1 General

1 All banks are required to ~~notify~~ maintain a liquidity policy statement ~~to the FSA~~. They should also maintain adequate systems for monitoring liquidity.

…

Annex E

Amendments to the Interim Prudential sourcebook for Building Societies

In this Annex, underlining indicates new text and striking through indicates deleted text.

X Introductory Chapter

X.1 Introduction

…

<u>X.1.2</u> <u>G</u> <u>From 31 December 2004 as part of the programme to implement the Integrated Prudential sourcebook (PRU), rules and guidance on elements of liquidity risk systems and controls located in PRU 1.2 and PRU 5.1, come into effect, and supersede some original material in this sourcebook.</u>

…

X.4.1 G The Interim Prudential Sourcebook for building societies sets out <u>most of</u> the FSA's detailed prudential standards and related notification requirements ~~applying~~ <u>(where these apply only</u> to societies authorised under the Act<u>)</u> and covers the constitutional matters referred to above. Other prudential standards applying to societies are set out in the Act and elsewhere in the Handbook: see, for example, the Threshold Conditions (COND), the Principles for Businesses (PRIN)<u>,</u> ~~and~~ Senior Management Arrangements, Systems and Controls (SYSC) <u>and the Integrated Prudential Sourcebook (PRU)</u>. Other notification requirements are set out in chapter 15 of the Supervision Manual (SUP).

…

X.4.3 G ~~This sourcebook applies to societies on an interim basis pending the preparation and implementation of a single Prudential Sourcebook applying to all firms regulated by the FSA – termed the Integrated Prudential Sourcebook. In developing the interim sourcebook, the FSA has drawn on the standards which formerly applied to societies authorised under the 1986 Act set out in the Statement of Principles and Prudential Notes issued by the Commission. These standards took the form of the Commission's interpretation of the criteria of prudent management in section 45 of the 1986 Act. The FSA has expressed some of the criteria of prudent management as rules in this Interim Prudential Sourcebook, but the majority of the previous material has now been recast as guidance under the Act. A significant amount of material previously published by the Commission has not been carried forward into the Interim Prudential Sourcebook, particularly descriptive, historical and explanatory material. This has been removed because the FSA considers that it is not appropriate material for prudential rules and guidance under the Act, not because the material is in~~

~~any way incorrect or irrelevant to societies' business.~~ The rules and evidential provisions are distributed throughout the prudential chapters of this sourcebook: rules can be found in paragraphs X.2.1, X.8.2, 1.2.1, 1.2.2, 4.2.1, 4.2.5, 4.2.6, ~~5.2.1,~~ 5.2.7, ~~5.2.9,~~ 6.2.1, 6.2.2, 6.2.3, 7.6.2, 7.6.3, 7.7.1, 7.7.3, 8.2.1, 9.2.1, 9.2.7 and 9.2.8. Evidential provisions can be found in paragraphs 5.2.4, 9.2.3 and 9.2.5.

…

4 FINANCIAL RISK MANAGEMENT

…

4.2.3 G Societies should have credit limits in place for all counterparties both for placing liquidity and for transacting derivative contracts (further guidance is also in Chapter 5 (Liquidity) <u>and in PRU 5.1 – stress testing and scenario analysis, and contingency funding plans</u>).

…

Stress Testing

4.7.7 G … Boards and management should, periodically, review the extent of such stress testing to ensure that any "worst case" scenarios remain valid. Contingency plans should be in place to deal with the consequences should such scenarios become reality. <u>Rules and guidance on stress testing, scenario analysis and contingency funding plans specifically for liquidity risk are in PRU 1.2 and PRU 5.1.</u>

…

5 Liquidity

5.1 Introduction

5.1.1 G <u>This chapter now sets out the FSA's quantitative regime for building societies' prudential liquidity, and further guidance specific to building societies on the management of their liquidity in accordance with the five approaches to financial risk management set out in chapter 4. This chapter complements PRU 5.1 (which contains rules and guidance for a wider range of firms on systems and controls appropriate for liquidity risk). Only certain provisions of PRU 5.1 apply to building societies, by virtue of PRU 5.1.3R and PRU 5.1.4R. Similarly it also complements PRU 1.2 (which sets out the high level requirements for liquidity that apply to deposit takers and own account dealers, as well as insurers).</u> ~~This chapter replaces PN 1998/5 issued by the Commission and contains rules and guidance for societies on the management of liquidity. It contains guidance for societies on what is meant by "adequate resources" in the Threshold Condition set out in paragraph~~

~~4(1) of Schedule 6 to the Act – see also COND 2.4 - and in Principle 4, in respect of liquidity.~~ The chapter ~~explains~~ outlines the ~~FSA's approach to liquidity for building societies and provides guidance on~~ factors the FSA will take into account in assessing whether a society meets the rules set out in section 5.2 and PRU 1.2 and the guidance in PRU 5.1. A list of types of asset suitable for inclusion in prudential liquidity for societies on each of the approaches to financial risk management is set out in Annex 5A. "Prudential liquidity" has the meaning set out in paragraph 5.3.4G.

5.1.2 G Some material on liquidity systems and controls, previously in this chapter and superseded by PRU 5.1, has been deleted, but the original numbering has been retained: where an entire section has been deleted this is noted alongside the original section number. The new material in PRU 5.1 covers requirements for stress testing and scenario analysis, as well as contingency funding plans and their documentation.

5.2 Rules

5.2.1 R ~~A society must maintain adequate liquid resources, including prudential liquidity, appropriate to the scale and nature of its business to enable it to meet its obligations as they fall due.~~ [Deleted]

5.2.2 G ~~"Adequate liquid resources" means of such amount and composition as will at all times enable the society to meet its obligations as they fall due.~~ [Deleted]

5.2.3 G ~~"Prudential liquidity" has the meaning set out in paragraph 5.3.4. A list of assets suitable for inclusion in prudential liquidity is set out in Annex 5A.~~ [Deleted]

5.2.4 E (1) …

(2) Contravention of 5.2.4(1) may be relied upon as tending to establish contravention of ~~5.2.1~~ PRU 1.2.22R.

…

5.2.7 R A society must maintain~~, and submit to the FSA,~~ a board-approved policy statement on liquidity.

5.2.8 G Guidance on the content of a liquidity policy statement is set out in ~~paragraphs~~ 5.6.2G to 5.6.4G and in Annex 5B. Societies will also find guidance on the requirements (set out at PRU 1.2.26R, PRU 1.2.27R, PRU 1.2.31R, PRU 1.2.33R, PRU 1.2.35R, PRU 1.2.37R and PRU 1.2.38R) for stress testing and scenario analysis at PRU 5.1.58R to PRU 5.1.62R. Further guidance on the requirements (set out at PRU 1.2.22R, PRU 1.2.35R and PRU 1.2.37R) on contingency funding plans and documentation is provided at PRU 5.1.85G – PRU 5.1.91G). Societies may, for convenience, wish to combine their documentation meeting these requirements with their liquidity policy statement, but need to be clear how any combined document meets the separate requirements.

5.2.9	R	~~A society making any significant change to its policy statement on liquidity must provide the FSA with a copy of the amended policy statement as soon as possible after it has been adopted.~~ [deleted]

…

5.6.2	G	Rule 5.2.7 requires each society to have a liquidity policy statement. This should be approved by the society's board and be consistent with the society's strategic plan and its financial risk management policy statement. Societies should also have regard to the rules and guidance in *PRU* 1.2 and *PRU* 5.1, set out in more detail at *PRU* 5.2.8G .

…

5.6.5	G	Boards should establish the objectives for liquidity including meeting obligations as they fall due (including any unexpected adverse cash flow), smoothing out the effect of maturity mismatches and the maintenance of public confidence. The need to earn a return may also be recognised as an objective, although this should be secondary to the security of the assets. Societies should also have regard to the rules and guidance in *PRU* 1.2 and *PRU* 5.1, set out in more detail at *PRU* 5.2.8G.

Annex F

Amendments to the Interim Prudential sourcebook for Friendly Societies

In this Annex underlining indicates new text and striking through indicates deleted text. Where an entirely new section of text is added, this is indicated and the new text is not underlined. Where an entire section of text is being deleted, the place where the change is made is indicated and the text is not struck through.

INTERIM PRUDENTIAL SOURCEBOOK FOR FRIENDLY SOCIETIES

GUIDANCE

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

…

5. ~~The Interim Prudential Sourcebook for Friendly Societies *(IPRU(FSOC))* starts by limiting the risks to which a *friendly society* may be subject. Rule 1.3 in Chapter 1 requires that the business of a *directive friendly society* is restricted to *insurance business*.~~ [deleted]

…

10. ~~Provisions in Chapter 4 also require a liability in any particular currency to be matched by assets in that currency. Further provisions relate to the location of assets.~~[deleted]

…

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

CONTENTS

List of Annexes

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)), rules 4.20 to 4.23, rule 5.1A, Chapters 7, 8 and Appendix 3 also apply to a *directive friendly society* which has permission under the *Act* to *effect* or *carry out* contracts of insurance.

…

Restriction of business to insurance

1.3 ~~(1)~~ ~~A *directive friendly society* must not carry on any commercial business in the United Kingdom or elsewhere other than *insurance business* and activities directly arising from that business.~~

~~(2)~~ ~~(1) does not prevent a *friendly society* which was on 15 March 1979 carrying on *long-term insurance business* and a savings business in the United Kingdom from continuing to carry on the savings business.~~ [deleted]

…

Chapter 3

MANAGEMENT AND CONTROL

Accounting records and systems of control

3.1 …

(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.

…

Chapter 4

FINANCIAL PRUDENCE

I. MARGINS OF SOLVENCY

Basic requirement[1]

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

…

Calculating the required margin of solvency

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

…

(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-

…

(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

…

(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*.

---

[1] 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~~, 1.3.1~~.

(6) …

The guarantee fund[4]

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

(2) In the case of a *friendly society* which is a *non-directive incorporated friendly society*-

~~(a) an *incorporated friendly society*; or~~

~~(b) an (unincorporated) *friendly society*, which is a *directive 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.

…

Minimum guarantee fund: long-term insurance business

4.5 ~~(1) Subject to (2) to (4) and to rule 4.6(3), the *minimum guarantee fund* for *long-term insurance business* carried on by a *directive friendly society* is 2,250,000 Euro~~. [deleted]

…

Minimum guarantee fund: general insurance business

4.6 (1) ~~Subject to (2) and (3), the *minimum guarantee fund* in respect of *general insurance business* carried on by a *directive friendly society* is 1,500,000 Euro.~~ [deleted]

…

(3) ~~Subject to (4) and (5), the base amount in Euro specified in (1) and in Appendix 2 will increase each year, starting on the first review date of 20 September 2003 (and annually after that), by the percentage change in the~~

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

~~European index of consumer prices (comprising all EU member states as published by Eurostat) from 20 March 2002 to the relevant review date, rounded up to a multiple of 100,000 Euro.~~[deleted]

(4) ~~In any year, if the percentage change since the last increase is less than 5%, then there will be no increase.~~ [deleted]

(5) ~~The increase will take effect 30 days after the EU Commission has informed the European Parliament and Council of its review and the relevant percentage change.~~ [deleted]

…

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 ~~*non-directive*~~ *registered friendly societies.*

4.12 (1) …

(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[6].

…

The rules 4.13 to 4.19 are deleted in their entirety. The deleted text is not shown struck through.

III ADEQUACY OF PREMIUMS

4.13 [deleted]

IV CURRENCY MATCHING AND LOCALISATION

~~**Matching: general requirement**~~

4.14 [deleted]

~~**Matching: property linked benefits**~~

4.15 [deleted]

~~**Matching: currency of general insurance business liabilities**~~

4.16 [deleted]

~~**Matching: exceptions for certain liabilities**~~

[6] ~~See Guidance Note P.1 of *IPRU (INS)*.~~

4.17 [deleted]

~~**Localisation**~~

4.18 [deleted]

~~**Exclusions from rules 4.14 to 4.18**~~

4.19 [deleted]

…

Chapter 5

PRUDENTIAL REPORTING

Annual actuarial investigation

5.1 (1) A *friendly society* which is

~~(a) is a *directive friendly society*; or~~

~~(b)~~ 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* ~~*appointed actuary*~~ 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 ~~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 *financial year* to which it relates,

and one of those copies must be signed as required by rule 5.12.[8]

…

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[8] See Sup 16.3.6 to 16.3.10R for rules on submission of periodic reports

5.1A 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.*

Triennial actuarial investigation

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

(a) …

(b) is a ~~*directive friendly society* or 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.*

…

(9) 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* must complete an abstract in the Form required under rules 5.14 to 5.19 (referred to as the "FSC3 return").

…

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* ~~by the *appointed actuary*;~~ and
(f) a report of the auditors.
~~(g) a statement that the *friendly society* consents to the FSC1 return being placed on its *public file*.~~

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

Balance sheet

5.6 …

~~(1A) Form 9A must be completed by every *directive friendly society* in respect of its *long-term insurance business assets*.~~

…

~~Actuary's~~ Certificate

5.10 ~~The *appointed actuary* must give~~ ~~a~~ 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, ~~and~~ 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.

(2) In giving this opinion the auditor must state whether he has relied on -

(a) the certificate ~~of the actuary~~ given in accordance with rule 5.10 with respect to the *mathematical reserves* and the *required minimum margin* of the *friendly society*; and

…

Signatures

5.12 (1) ~~The *appointed actuary* must sign the certificate in Form 61B.~~[deleted]

…

(3) The FSC1 Return must be signed, in Form 61B ~~61D~~, by ~~the *appointed actuary* and~~ 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).

…

5.26 ~~A *directive friendly society* must provide to any person (or the person who has already been provided with a copy under (a)) within 30 days of the date of request (or, in the case of (b), the date of deposit under rule 5.3):~~

~~(a) a copy of any of the documents last deposited by the *friendly society* under rules 5.1 or 5.2; and~~

~~(b) a copy of any document deposited under rule 5.3 which corrects or makes good any document provided under (a),~~

~~in printed form, but (in the case of (a)) the *friendly society* may make a charge to cover its reasonable costs, including those of printing and postage.~~

[deleted]

Chapter 6 (Statistical information relating to EEA branches and services operations) is deleted in its entirety; the deleted text is not shown struck through.

Chapter 6

[deleted]

Amend or delete the following definitions in Chapter 7 as shown (unchanged definitions are not shown):

Chapter 7

DEFINITIONS

Part I **Definitions**

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

~~*Act* means Financial Services and Markets Act 2000;~~
~~*appointed actuary* means an actuary appointed under *SUP* 4.13.1R;~~
~~*appropriate actuary* means an actuary appointed under *SUP* 4.4.1R;~~
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 ~~Co-ordination~~ Consolidation Directive*;
~~*approved financial institution* means any of the following –~~ ~~the European Central Bank;~~ ~~the central bank of an *EEA State*;~~ ~~the International Bank for Reconstruction and Development;~~ ~~the European Bank for Reconstruction and Development;~~ ~~the International Finance Corporation;~~ ~~the International Monetary Fund;~~ ~~the Inter-American Development Bank;~~ ~~the African Development Bank;~~ ~~the Asian Development Bank;~~ ~~the Caribbean Development Bank;~~ ~~the European Investment Bank;~~ ~~the European Community;~~ ~~the European Atomic Energy Community;~~ ~~and the European Coal and Steel Community~~;

~~*Banking Co-ordination Directive* means Council Directive 2000/12/EC of 20 March 2000 relating to the taking up and pursuit of of the business of credit institutions;~~

~~*building society* means a building society within the meaning of the Building Societies Act 1986;~~

~~*contract of insurance* includes:~~

~~(a) fidelity bonds, performance bonds, administration bonds, bail bonds, customs bonds, or similar contracts of guarantee, effected in return for the payment of one or more premiums;~~

~~(b) tontines;~~

~~(c) when effected or carried out by a body that carries on the business of effecting or carrying out *contracts of insurance* apart from this paragraph, capital redemption contracts and *pension fund management contracts*;~~

~~(d) contracts to pay *annuities on human life*;~~

~~(e) contracts of a kind referred to in article 1(2)(e) of the f*irst life Directive*; and~~

~~(f) contracts of a kind referred to in article 1(3) of the f*irst life Directive*;~~

~~*directive friendly society* means a *friendly society* other than a *non-directive friendly society*;~~

~~*designated state or territory* means any *EEA State* (other than the United Kingdom), Switzerland, a state in the United States of America, the District of Columbia, Puerto Rico, Canada or a province of Canada, Australia, South Africa, Singapore and Hong Kong;~~

~~*EEA State* means a State which is a contracting party to the agreement on the European Economic Area signed at Oporto on 2 May 1992~~

~~*first non-life Directive* means Council Directive 73/239/EEC of 24 July 1973 on the co-ordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance;~~

~~*first life Directive* means Council Directive 79/267/EEC of 5 March 1979 on the co-ordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance;~~

~~*flat rate benefits business friendly society* means a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of members are determined on a flat rate basis;~~

~~*friendly society* means an *incorporated friendly society* or a *registered friendly society*;~~

~~*FSA* means the Financial Services Authority~~;
~~*incorporated friendly society* means a *friendly society* incorporated under the *1992 Act*;~~
~~*index linked benefits* means benefits –~~ ~~(a) provided for under a *linked long-term contract*; and~~ ~~(b) determined by reference to fluctuations in, or an index of, the value of property of any description (whether or not specified in the contract);~~
~~*industrial and provident society* means any society registered (or deemed to be registered) under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969~~;
~~*insurance business* means the business of effecting or carrying out *contracts of insurance* as principal;~~
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*~~, *first life Directive*, the *second life Directive* and the *third life Directive*~~ , and such other Directives as make provision with respect to the business of direct long-term assurance;
~~*insurance undertaking* has the meaning given in *IPRU(INS)*;~~
~~*Insurer* has the meaning given in *IPRU(INS)*;~~
~~*IPRU(FSOC)* means the Interim Prudential Sourcebook for Friendly Societies;~~
~~*IPRU(INS)* means the Interim Prudential Sourcebook for Insurers;~~
~~*life Directives* means the *first life insurance Directive*, the *second life Directive*, and *the third life Directive*~~; ~~Directive 2002/83/EC of 5 Novembe 2002 concerning life assurance~~

~~*non-directive friendly society* means:~~ ~~(1) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis;~~ ~~(2) a *friendly society* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the *commitments* arising from such operations are fully covered at all times by *mathematical reserves*);~~ ~~(3) a *friendly society* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;~~ ~~(4) a *friendly society* (carrying on *long-term insurance business*) –~~ ~~(a) whose articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~ ~~(b) whose annual *gross premium* income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the three preceding *financial years*;~~ ~~(5) a *friendly society* (carrying on *general insurance business*) whose –~~ ~~(a) registered rules contain provisions for calling up additional contributions from members or reducing their benefits;~~ ~~(b) *gross premium* income (other than from contracts of reinsurance) for the preceding *financial year* did not exceed 5 million Euro; and~~ ~~(c) members provided at least half of that *gross premium* income;~~ ~~(6) a *friendly society* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other mutuals (including *friendly societies*),~~ ~~and whose *insurance business* is limited to that described in paragraphs (1) to (6);~~
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-life Directives* means the *first non-life Directive*, the *second non-life Directive*, and the *third non-life Directive*;~~

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)

participation means:

(a) the holding of a participating interest within the meaning of section 421(2)~~411(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 of the Inland Revenue 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.

permitted derivative contract

<u>(1) for a *directive friendly society*, means a *derivative* or *quasi derivative* which satisfies the requirements of *PRU* 4.3, with the exception of *PRU* 4.3.18R, as applied in relation to assets covering liabilities in respect of *linked long term contracts,* amended as follows:</u>

<u>(a) in *PRU* 4.3.5R and *PRU* 4.3.36R, "For the purpose of *PRU* 2 Ann 1R (Admissible assets in insurance)" is replaced by "For the purposes of *IPRU (FSOC)* rule 4.21 and Appendix 3";</u>

<u>(b) in *PRU* 4.3.6R (2) and (3), *PRU* 4.3.7R (1) and (2), *PRU* 4.3.17R (1) and *PRU* 4.3.36R (1) "*admissible assets*" is replaced by "*permitted connected property*";</u>

<u>(c) *PRU* 4.3.12R (2) and (3) are replaced by:</u>

<u>"(2) (where they are held to cover *index-linked liabilities)* might:</u>

<u>(a) not be appropriate cover for those liabilities as required by *PRU* 4.2.58R; or</u>

<u>(b) fall in value; and</u>

<u>(3) (where they are held to cover *property-linked liabilities*) might:</u>

<u>(a) not be appropriately selected in accordance with contractual and constructive liabilities as required by *PRU* 7.6.36R and appropriate cover for those liabilities as required by *PRU* 4.2.57R; or</u>

<u>(b) fall in value"</u>.

<u>(2) for a *non-directive incorporated friendly society,*</u> means a *derivative contract* which<u>:</u>

(a) is covered and –

(i) is held in connection with property of the type described in rule 4.22 for the purpose of reduction of investment risk or efficient portfolio management, or

(ii) has the effect of a *permitted derivative contract* held in connection with such property for such purpose; and

(b) satisfies the conditions in 13(6) to 13(8) of Appendix 4 except that the references in 13 of Appendix 4 to "an asset for the valuation of which provision is made in this chapter" is construed as reference to *permitted connected property*;

~~*policyholder* has the meaning given in *IPRU(INS)*;~~

~~*pure reinsurer* has the meaning given in *IPRU(INS)*;~~
~~*registered friendly society* means a *friendly society* registered within the meaning of the *1974 Act* by virtue of section 7(1)(a) of that Act or any *enactment* which it replaced, and includes any *registered branch*es of the *friendly society*;~~
required margin of solvency has the meaning given in rule ~~4.1~~ 4.2
~~*Second non-life Directive* means Council Directive 88/357/EEC of 22 June 1988 on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC~~;
~~*Second life Directive* means Council Directive 90/619/EEC of 8 November 1990 on the co-ordination of laws, regulations and administrative provisions relating to direct life assurance, laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 79/267/EEC;~~
~~*SUP* means the Supervision Manual~~;
~~*third non-life Directive* means Council Directive 92/49/EEC of 18 June 1992 on the co-ordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending Directives 73/239/EEC and 88/357/EEC;~~
~~*third life Directive* means Council Directive 92/96/EEC of 10 November 1992 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;~~
~~*UCITS Directive* means Council Directive 85/611/EEC of 20 December 1985 on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investments in transferable securities;~~
~~*UK insurer* has the meaning given in *IPRU(INS);*~~

…

Chapter 8

TRANSITIONAL PROVISIONS

Guidance:

…

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
1	*IPRU(FSOC)* 4.12, 4.20, 4.21, 4.22, 4.23, Appendix 4 paragraph 15	R	For the period given in column 5, a *non-directive incorporated friendly society* need not comply with a *rule* listed in column 2	From 31 December 2004 to 30 December 2005	31 December 2004
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	R	For the period given in column (5), for the purposes of the	31 December 2004 to 30 December	31 December 2004

	12		*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.*	2005	
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

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*~~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").

…

Appendix 4

ASSET VALUATION RULES

…

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* ~~*directive*~~ *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 ~~*friendly society*~~ 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 ~~*friendly society*~~ society is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* for such *counterparty*;

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

(d) the value of any assets transferred to or for the benefit of the ~~*friendly society*~~ 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 ~~*friendly society*~~ 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 ~~*friendly society*~~ society; and

(b) where the ~~*friendly society*~~ 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 ~~*friendly society*~~ society would otherwise be permitted to take into account for any of the purposes for which the *asset valuation rules* apply.

(3) Where a ~~*friendly society*~~ 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 ~~*friendly society*~~ 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.

…

Appendix 10

Prudential Reporting Forms

…

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 the Actuary's certificate~~ and Auditor's report included herein are the form and contents of an abstract under rule 5.1(2) for use by a ~~*directive friendly society* or a~~ *non-directive incorporated friendly society* (other than a *flat rate benefits business friendly society*) in respect of its *long-term insurance business*.

<u>One copy</u> of the Return must be signed by ~~the *appointed actuary*,~~ 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).

<u>Three copies</u> 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

...

Form 9A and notes to Form 9A are deleted in their entirety, the text is not shown struck through.

…

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 ~~appointed actuary's~~ 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 paragraph~~s~~ (a)(ii) of the certificate in ~~*the appointed actuary's* certificate (~~Form 61B~~)~~, but only insofar as it relates to the fund, funds or group of funds to which this Form 14 relates.

…

FSC 1 – FORM 61B

Returns under the Friendly Societies Prudential Rules
Long term insurance business: Annual Investigation ~~Actuary's~~ Certificate and Signatures

Name of Society

Period ended 31 December

Reg No

~~I~~ We certify that:

(a) (i) ~~in my opinion~~, 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) ~~in my opinion,~~ 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) ~~I have complied with the Institute of Actuaries and Faculty of Actuaries professional guidance notes listed below.~~
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) ~~I~~ We have the following additional comments (use extra pages).

~~Signature~~ ~~*Date*~~

~~Name:~~

~~Address:~~

~~Qualification:~~

The following new signature box is inserted at the end of FSC1 – Form 61B:

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)

Form 61D is deleted in its entirety, the text is not shown struck through.

FSC 1 – FORM 61D [deleted]

…

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.

1A. ~~A *friendly society* may also wish to have regard to Guidance Note P.3 (Systems and Controls in Insurers) in *IPRU(INS)*. Some of the issues addressed in that Guidance Note are already covered in parts of this sourcebook. Where they are not covered, *friendly societies* should look to the Guidance Note. Not all of the Guidance Note is appropriate for smaller *friendly societies*.~~ [deleted]

…

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 ~~*directive*~~ *friendly societies* which make use of *derivative contract*s.

…

Applicable to ~~directive~~ 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* ~~*directive*~~ *friendly society* to satisfy the 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 ~~directive society~~ *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 ~~directive society~~ *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 ~~directive society~~ *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).

13. ~~Rules 4.14 to 4.19, which apply to directive societies, set out the requirements for matching and localisation of assets.~~ [deleted]

…

B – Systems of control

Importance of adequate controls

…

16. Additional considerations for ~~*directive*~~ *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 ~~*appointed* or~~ *appropriate actuary* or from the person or persons appointed to perform the *actuarial function*.

…

Investment policy of a ~~directive~~ non-directive incorporated society - exposure limits

20. The *committee* of a ~~*directive*~~ *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).

...

Exposure limits - additional considerations

23. The *committee* of a *non-directive incorporated* ~~*directive*~~ *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.

…

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 contracts* 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 ~~*directive*~~ *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.* ~~Annex 7 refers to Guidance Note 4.2 in *IPRU(INS)* which discusses 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.

…

ANNEX 4

GUIDANCE ON MARGINS OF SOLVENCY AND THE GUARANTEE FUND

…

4A. ~~Guidance Note 2.2 in IPRU(INS)~~ Guidance in PRU 2 Annex 2G (Guidance on applications for waivers relating to implicit items) ~~applies to~~ 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).

4B. ~~Guidance Note 2.1 in *IPRU(INS)* (Hybrid capital: Admissibility for solvency) applies to *friendly societies* applying for a waiver of rules 4.7(2) or (4) of *IPRU(FSOC)* under section 148 of the *Act* (Modification or waiver of rules).~~[deleted]

…

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 ~~*directive* and~~ 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*.

…

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) …

(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

(c) ~~the matching and localisation provisions in rules 4.14 to 4.19 apply only to *directive friendly societies* (rule 4.11); and~~ [deleted]

(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 ~~*directive*~~ *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 ~~*non-directive incorporated*~~ *friendly societies*. ~~In addition, the increases to the *minimum guarantee fund* required by virtue of the Solvency I Directives (2002/12/EC and 2002/13/EC of 5 March 2002) from 1 January 2004 have not been applied to *non-directive incorporated friendly societies*.~~

10. …

11.1 The requirements for the various categories are summarised below:

~~**Life Directive Friendly Societies**~~

11.2 ~~(1) These would include any *friendly society* which carries on *long-term insurance business* where:~~

- ~~(a) its rules do not contain provision for calling up additional contributions, for reducing benefits or for claiming assistance from other persons who have undertaken to provide it; or~~

  ~~(b) its *annual contribution income* from *long-term insurance business* exceeded 5 million Euro for 3 consecutive years.~~

~~(2) Valuation is made annually and the rules in chapter 4 and rule 5.1 apply.~~ [deleted]

~~**Non-life Directive Friendly Societies**~~

11.3 ~~(1) Similarly, these would include any *friendly society* which carries on *general insurance business* where:~~

~~(a) its rules do not contain provision for calling up additional contributions or for reducing benefits; or~~

~~(b) its *annual contribution income* from *general insurance business* in any previous year exceeded 5 million Euro.~~

~~(2) Valuation is made triennially and rules in chapter 4 (other than rules 4.5 – *minimum guarantee fund* and rule 4.12 – adequacy of *premiums*) and rule 5.2 apply~~ [deleted]

...

Other non-directive Friendly Societies

11.6.~~1.1~~(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.

…

12.1 Resilience Test

…

12.3 *Friendly societies* should, as a minimum, consider the scenario of a fall in the *market value* of equities of ~~the greater of~~ at least 10%, or, if greater, the lower of:

(1) 25%, or such lower amount which would not produce a P/E ratio on the FTSE Actuaries All Share Index lower than 75% of the inverse of the long-term gilt yield (as defined in paragraph 10(9) of Appendix 5 of *IPRU(FSOC)*); and

(2) ~~10%.~~ 25% less any percentage reduction between the current FTSE Actuaries All Share Index and its average over the last 90 calendar days.

12.4 At the same time, *friendly societies* should make the assumption that the earnings yield on equities will fall by 10% (shortly after the above fall in equity values), but that dividends would remain unaltered when assessing the corresponding rate of interest at which the liabilities should be valued.

In 12.3(2), the current index should be compared to its recent average, based on levels at the close of business. Of the last 90 calendar days, only those on which the London Stock exchange was open for trading should be taken into account in determining the average. Where there has been a fall, such a percentage fall should be deducted from the 25% in arriving at this resilience test.

12.5 The ~~*appointed actuary*~~, *actuary* appointed to perform the *actuarial function* under the rules in *SUP* ~~in advising the *friendly society*,~~ would then be expected to apply his or her own professional judgement in advising the management of the *friendly society* on ~~considering~~ the level of changes in the *market value* of, and yield on, other types of investment held by the society for the purpose of ~~this~~ the resilience test. The prudence concept should be paramount. Reductions in fixed interest yields, or changes in the shape of the yield curve, are among the obvious possibilities.

…

~~Shares in and debts due from a related undertaking~~

13. ~~Annex C of Guidance Note 4.1 (Guidance for insurers and auditors on the Valuation of Assets Rules) in *IPRU(INS)* applies to *friendly societies* for the purposes of the valuation of *shares* held in and *debts* due, or to become due, from a *related undertaking* under paragraphs 3 and 4 of Appendix 4.~~ [deleted]

Annex 5

GUIDANCE ON EXEMPTION FROM TRIENNIAL VALUATION

…

2 Rule 5.1 requires any *friendly society* with permission to carry on *long-term insurance business* which is-

~~(a) a *directive friendly society*; or~~

~~(b)~~ an *incorporated friendly society,*

to cause the ~~*appointed*~~ *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*.

…

Annex 7

GUIDANCE ON THE USE OF DERIVATIVE CONTRACTS BY ~~DIRECTIVE~~ 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. ~~Guidance Note 4.2 in *IPRU(INS)* applicable to *insurers* other than *friendly societies* discusses the valuation issues surrounding the use of *derivative contract*. The guidance it gives is also generally applicable to *friendly societies*.~~

Approved derivatives contracts

2. An *approved derivative contract*, if held by a ~~*directive*~~ *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.

…

Annex 8 (Guidance on the balance sheet (forms 9 – 17)) is deleted in its entirety, the text is not shown struck through.

Annex 8

[deleted]

Annex G

Amendments to the Interim Prudential sourcebook for Insurers

Part 1: Amendments to Volume 1

In this part underlining indicates new text and striking through indicates deleted text. Where existing text is replaced by new text, this is indicated and the new text is not underlined. Where an entire section of text is deleted, the place where the change is made is indicated and the text is not struck through.

…

INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS GUIDANCE

THE PURPOSE OF THE PRUDENTIAL RULES FOR INSURERS AND AN OVERALL DESCRIPTION

Delete the paragraphs 1 to 18 below in their entirety
[deleted text]

INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

CONTENTS

VOLUME ONE

VOLUME TWO

Appendices to the Rules

VOLUME THREE

FSA GUIDANCE NOTES

~~margin of solvency)~~ [deleted]

Guidance Note 2.2 ~~Guidance on applications for waivers relating to implicit items~~ [deleted]

Guidance Note 2.3 ~~Solvency margin: implementation of Solvency 1 Directives~~ [deleted]

Guidance Note 4.1 ~~Guidance for insurers and auditors on the Valuation of Assets Rules~~ [deleted]

Guidance Note 4.2 ~~Use of derivative contracts in insurance funds (rule 4.12)~~ [deleted]

Guidance Note 4.3 [deleted]

Guidance Note 4.4 ~~Linked contracts~~ [deleted]

Guidance Note 5.1 ~~Resilience test [replaced by Guidance Note No.4 (Resilience test for insurers) until the Integrated Prudential Sourcebook comes into force]~~ [deleted]

Guidance Note 9.1 ~~Preparation of returns~~ [deleted]

Guidance Note 9.2 [deleted]

Guidance Note 10.1 ~~Parent undertaking solvency calculation~~ [deleted]

GUIDANCE: FSA 'DEAR DIRECTOR' LETTERS

DD1 ~~Use of derivatives – listed products~~ [deleted]

OTHER MATERIAL: 'DEAR APPOINTED ACTUARY' LETTERS

DAA8 ~~Recommended aids reserving policy~~ [deleted]
DAA9 ~~Pensions review: reserving for guarantees~~ [deleted]
DAA11 ~~Reserving for guaranteed annuity options~~ [deleted]
DAA13 ~~Reserving for guaranteed annuity options~~ [deleted]
DAA14 [deleted]
DAA15 [deleted]

Chapter 1

APPLICATION RULE ~~AND RESTRICTION OF BUSINESS TO INSURANCE~~

CONTENTS

Application

1.1 Insurers

1.2 The Society of Lloyd's

~~Restriction of business to insurance~~

1.3 [deleted]

Chapter 1
APPLICATION RULE ~~AND RESTRICTION OF BUSINESS TO INSURANCE~~

Application

Insurers

1.1 An *insurer* must comply with *IPRU (INS)* unless it is –

(a) a *friendly society*[1]; or

(b) subject to ~~rule 3.5(3) (payment of financial penalties)~~ ~~and~~ rules 3.6 and 3.7 (application of rules to *linked long-term contracts*), an *EEA insurer* qualifying for authorisation under Schedules 3 or 4 to the *Act*.

The Society of Lloyd's[2]

1.2 No provisions of *IPRU (INS)* apply to the *Society of Lloyd's*, or members of the *Society of Lloyd's* except rules 9.37 and 9.38.

---

[1] A *non-directive friendly society* must comply with *IPRU(FSOC); a directive friendly society* must comply with *PRU*; with Chapters 1, 2 and 3, 4 (rules 4.20 to 4.23 only), 5 (rule 5.1A only) 7, 8 and Appendix 3 of *IPRU(FSOC*). Rule 5.1A of *IPRU(FSOC)* effectively applies most of Chapter 9 of *IPRU(INS)* to *directive friendly societies,* notwithstanding *IPRU(INS)* 1.1(a)

[2] *LLD* applies to the *Society*.

~~**Restriction of business to insurance**~~

1.3 ~~(1) An *insurer* must not carry on any commercial business in the United Kingdom or elsewhere other than *insurance business* and activities directly arising from that business.~~

~~In-house pension funds~~

~~(2) If an *insurer* manages assets of a pension fund solely for the benefit of -~~

~~(a) its 'officers' or 'employees'; or~~

~~(b) its 'officers' or 'employees' and 'officers' or 'employees' of its *subsidiary* or *holding company* or a *subsidiary* of its *holding company,*~~

~~that activity is to be treated as directly arising from the *insurer's insurance business.*~~

~~(3) **Officers** or **employees** include their dependants~~. [deleted]

Chapter 2 (Margins of solvency) is deleted

Chapter 2

[deleted]

Chapter 3

LONG-TERM INSURANCE BUSINESS

CONTENTS

Part I - Identification and application of assets and liabilities

3.3 Allocations to policy holders

3.4 ~~Restriction on transactions with connected persons~~ [deleted]

3.5 Arrangements to avoid unfairness between separate insurance funds~~, source of funds for payment of financial penalties, etc~~

Part II - Linked long-term contracts

3.6 Application

3.7 Linked long-term contracts

Chapter 3

LONG-TERM INSURANCE BUSINESS

Part I

IDENTIFICATION AND APPLICATION OF ASSETS AND LIABILITIES

Separation of assets and liabilities attributable to long-term insurance business

3.1 (1) ~~Where an *insurer* carries on *ordinary long-term insurance business* or *industrial assurance business* or both -~~

~~(a) it must maintain a separate account in respect of each kind of business; and~~

~~(b) the receipts of each kind of business must be entered in the account maintained for that business and must be carried to and form a separate *long-term insurance fund* with an appropriate name.~~ [deleted]

(2) An *insurer* which carries on *ordinary long-term insurance business* or *industrial assurance business* must maintain such accounting and other records as are necessary for identifying -

(a) the assets representing the ~~fund~~ *long-term insurance fund* maintained by it for that business ~~under (1)(b)~~ (but without necessarily distinguishing between the ~~funds or~~ funds if more than one); and

(b) the liabilities attributable to each kind of business which it carries on.

Application of assets of insurer with long-term insurance business

Limitation on use of assets in long-term insurance fund

3.2 ~~(1) Subject to (2) and (4), *long-term insurance business assets* must -~~

~~(a) be applied only for the purposes of its *long-term insurance business*; and~~

~~(b) not be transferred so as to be available for other purposes of the *insurer* except where the transfer constitutes reimbursement of expenditure borne by other assets (in the same or the *preceding financial year*) in discharging liabilities wholly or partly attributable to *long-term insurance business*.~~

~~First exception: the use of excess assets~~

~~(2) Where an *actuarial investigation* shows that the value of the assets mentioned in (1) exceeds the amount of the liabilities attributable to the *long-term insurance business,* the restriction imposed by that rule does not apply to so much of those assets as represents the excess.~~

~~Qualification~~

~~(3) (2) does not authorise a transfer or other application of assets by virtue of an *actuarial investigation* at any time after the date when the abstract of the actuary's report of the investigation has been deposited with the *FSA* in accordance with rule 9.6(1).~~

~~Second exception: exchanges at fair market value~~

~~(4) Nothing in (1) precludes an *insurer* from exchanging, at fair market value, *long-term insurance business assets* for other assets of the *insurer*.~~

~~Further limitation on use of assets in long-term insurance fund~~

(5) ~~Money from an insurer's long-term insurance fund must not be used for the purposes of any other business of the insurer notwithstanding any arrangement for its subsequent repayment out of the receipts of that other business.~~ [(1) to (5) deleted]

Restriction in relation to dividends

(6) A *long-term insurer* must not declare a dividend at any time when the value of the *long-term insurance* ~~*business*~~ *assets*, as determined in accordance with ~~the *Valuation of Assets Rules*,~~ *PRU* 1.3 and *PRU* 3.2 is less than the amount of the *long-term insurance business* ~~*liabilities*~~ *technical provisions* ~~determined in accordance with the *Determination of Liabilities Rules*~~ and any other

<u>liabilities connected with the *long- term insurance business*</u>.

…

Allocations to policy holders

Allocation of established surplus

3.3 (1) …

an *insurer* must not by virtue of ~~rule 3.2(2)~~ <u>*PRU* 7.6.27R</u> transfer or otherwise apply assets representing any part of the surplus mentioned in (a) unless the insurer has –

…

(7) (1) does not authorise the application for purposes other than those mentioned in ~~rule 3.2(1)~~ <u>*PRU* 7.6.30R</u> of assets representing any part of the surplus mentioned in (1)(a) which the *insurer* has decided to carry forward unappropriated; and for the purposes of (2) the amount of any surplus is treated as reduced by any part of it which the insurer has decided to carry forward unappropriated.

…

Restriction on transactions with connected persons

Rule 3.4 is deleted

3.4 <u>[deleted]</u>

3.5 **Arrangements to avoid unfairness between separate insurance funds~~, source of funds for payment of financial penalties, etc~~**

…

~~(3) Where the *FSA* imposes a financial penalty on a *long-term insurer* (including an *insurer* qualifying for authorisation under Schedules 3 or 4 to the *Act*), which is not a *mutual*, the *insurer* must not pay that financial penalty from a *long-term insurance fund*.~~ <u>[deleted]</u>

~~**Adequacy of premiums**~~

3.5A ~~(1) Before entering into a *long-term insurance contract,* a *UK insurer* must satisfy itself that the aggregate of –~~

~~(a) the premiums payable under the contract and the income which will be derived from them; and~~

~~(b) any other resources of the *UK insurer* which are available for the purpose, will be sufficient, on reasonable actuarial assumptions, to meet all *commitments* arising under or in connection with the contract.~~

~~(2) A *UK insurer* must not rely on other resources for the purposes of (1) in such a way as to jeopardise its solvency in the long-term~~. [deleted]

…

Chapters 4 (Valuation of assets), 5 (Determination of liabilities), 6 (General insurance business: equalisation reserves) and 7 (Currency matching and localisation) are deleted

Chapter 4
[deleted]

Chapter 5
[deleted]

Chapter 6
[deleted]

Chapter 7
[deleted]

Chapter 8

NON-UK INSURERS

CONTENTS

Part I - Deposits

Part II - Location of accounts and records

Part III – Rules applicable to branches

8.3 ~~–8.5~~

Part I

DEPOSITS

~~**Making and amount of deposit**~~

8.1 ~~(1) Subject to (2), a *non-EEA insurer* which has permission under the *Act* to carry on *direct insurance business*, other than a *Swiss general insurer*, must make and maintain a deposit in the United Kingdom with an *approved credit institution* which is no less than *the minimum*.~~

~~(2) Where~~

~~(a) the *insurer* carries on *insurance business* in the United Kingdom and one or more other *EEA States*; and~~

~~(b) the *FSA* and the appropriate supervisory authority or authorities in the *EEA States* have agreed that this rule should apply,~~

~~the *insurer* must make and maintain the deposit with such person as may be agreed between the *FSA* and the other authority or authorities.~~

[deleted]

Part II

LOCATION OF ACCOUNTS AND RECORDS

8.2 ~~A *non-EEA insurer* which is not a *Swiss general insurer* must keep in the United Kingdom proper accounts and records in respect of *insurance business* carried on in the United Kingdom.~~ [deleted]

Part III

RULES APPLICABLE TO BRANCHES

8.3 An *insurer* which has its head office outside the United Kingdom (other than a *pure reinsurer* which has a Treaty right under Schedule 4 to the *Act*, or a *Swiss general insurer*) must appoint and maintain the appointment of a chief executive (who alone or jointly with one or more others, is responsible for the conduct of its business through an establishment in the United Kingdom) ~~and an authorised UK representative (who is resident in the United Kingdom and is authorised to act generally, and to accept service of any document, on behalf~~

~~of the *insurer* in the United Kingdom)~~.

8.4 ~~A *Swiss general insurer* must appoint and maintain the appointment of an authorised UK representative as described above.~~ [deleted]

8.5 ~~An *insurer* which has its head office outside the United Kingdom (other than a *pure reinsurer* which has a Treaty right under Schedule 4 to the *Act)* must be entitled to undertake *insurance business* under its national law.~~ [deleted]

Chapter 9

FINANCIAL REPORTING

CONTENTS

Part I - Accounts and statements

…

9.3A Half-yearly balance sheet and report for realistic valuation

…

9.22 Additional information on general insurance business ~~(other than credit insurance business)~~

...

9.31 ~~Periodic actuarial investigation~~ Valuation reports on long-term insurance business

…

9.34 Certificates of Directors

…

9.36 Information on ~~appointed actuary~~ the actuary who has been appointed to perform the with-profits actuary function

…

Part V – Group Capital Adequacy

9.40 – 9.43

Chapter 9

FINANCIAL REPORTING

Part I

ACCOUNTS AND STATEMENTS

Application

9.1 These *Accounts and Statements Rules* apply to every *insurer* other than -

(a) an *EEA-deposit insurer*, in relation to *insurance business* carried on by it outside the United Kingdom; or

…

Interpretation

9.2 …

(3) …

(b) in relation to a *UK-deposit insurer*, to its entire *long-term insurance business* or to its entire *general insurance business* and to any *long-term insurance business* or *general insurance business* carried on by it through a branch in any *EEA State*,

…

(ii) accounts prepared in respect of the *long-term insurance business* or the *general insurance business* carried on, in the case of an *external insurer*, by the branch in the United Kingdom and, in the case of a *UK-deposit insurer*, by the branches in question in the *EEA States* taken together.

…

Half-yearly balance sheet and report for realistic valuation

9.3A

(1) Every *long-term insurer* which is a *realistic basis life firm* must in respect of each *financial year* prepare **Forms 2**, **18** and **19** of **Appendix 9.1**, as at the end of the first six months of that *financial year*.

(2) The Forms in (1) must be prepared in accordance with **Appendix 9.1,** and **Form 2** must be completed in respect of the *long-term insurance business* of the *firm* and **Forms 18 and 19** must be completed in respect of each of the *firm's with-profit funds.*

(3) The Forms in (1) must be accompanied by a report (instead of the reports required under rule 9.4(1)(b)) identifying any changes to the methods and assumptions used from those set out in the report for the realistic valuation as at the end of the *preceding financial year* .

(4) Rules 9.4, 9.6, 9.10, 9.11, 9.12, 9.33 and 9.34, **Appendices 9.1** and **9.4A** and **Part I** of **Appendix 9.6** apply to this rule and to any documents required under this rule as if –

(a) an additional balance sheet were required under rule 9.3;

(b) the documents required by (1), and only those documents, were required by rule 9.12 for the purposes of the balance sheet in (a) above;

(c) an additional investigation were required under rule 9.4 in respect of the six-month period covered by this rule;

(d) any document required by (3) were a document required by rule 9.31(b) for the purposes of the investigation in (c) above;

(e) any reference to the *financial year in question* (however expressed) were a reference to the six-month period referred to in (1);

(f) any reference to the preceding year were a reference to the end of the *preceding financial year*;

(g) the required signatory in each case were any director of the *insurer*;

(h) any reference to a particular amount shown in a document not required under (1) or (3) were a reference to the amount which would be shown in that document (subject to any modifications in (a) to (f) above) in accordance with the *Accounts and Statements Rules* if that document were required to be produced; and

(i) any requirement (other than in this rule) to refer in the *return* or any certificate annexed to it by virtue of rule 9.34 to a document not required under (1) or (3) were omitted.

(5) Instead of a valuation report under rule 9.31(a), the report referred to in (3) must include, in an additional numbered answer following the answers to the paragraphs in **Appendix 9.4A**–

(a) a full description of each of the changes in the methods and assumptions used in the investigation for the purposes of rule 9.4(2)(a) and (b) since the previous investigation at the end of the *preceding financial year*; or

(b) if there has been no such change, a statement to that effect.

Rules 9.3, 9.5, 9.7, 9.13 to 9.30, 9.31, 9.32 and 9.35 to 9.39 do not apply in respect of the documents required under this rule.

Periodic actuarial investigation of long-term insurer

9.4 (1) Every *long-term insurer* –

(a) must, once in every period of 12 months, cause an investigation to be made into its financial condition in respect of its *long-term insurance business*, in accordance with the methods and assumptions determined by the *insurer*, by the person or persons who for the time being ~~is its *appointed actuary*~~ are appointed to perform the *actuarial function* under the rules in *SUP*; and

(b) when such an investigation has been made, or when at any other time an investigation into the financial condition of the *insurer* 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, must cause an abstract of the ~~appointed actuary's~~ report or reports of the investigation to be made.

(2) An investigation to which (1)~~(b)~~ relates must include –

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

(b) a valuation of any excess over those liabilities of the assets representing the *long-term insurance fund* or *funds* and, where any rights of any long-term *policy holders* to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of those parts; and

(c) for every *long-term insurer* which is a *realistic basis life firm*, a calculation of the *with-profits insurance capital component*.

(3) For the purposes of any investigation to which this rule applies, the value of any assets and the amount of any liabilities must be determined in accordance with ~~the *Valuation of Assets Rules*~~ *PRU* 1.3, *PRU* 3.2 and ~~the *Determination of Liabilities Rules*~~ *PRU* 7.

(4) The form and contents of any abstract under this rule must be in accordance with ~~the *Accounts and Statements Rules*~~ rule 9.31.

Audit of accounts

9.5 (1) ...

(2) In (1), the reference to **accounts and balance sheets** includes a reference to any notes or statement or report annexed to them, save for -

(a) the *directors*' certificate annexed pursuant to rule 9.34, and

(b) **Forms 46** to **47A**, **50** to **55**, **57** and **59**.

Deposit of accounts etc. with the FSA

9.6 (1) ~~Subject to (1A),~~ ~~e~~Every 'account', 'balance sheet', abstract or statement required by rules 9.3, 9.4 and 9.36A and any report of the auditor of the *insurer* made in pursuance of rules 9.5 or 9.36E must be printed, and the 'required copies' must be deposited with the *FSA* within the periods set out in the table below.

	deposit period following the *financial year* end	
***financial year* ending on or after**	**where the deposit is made electronically or under rule 9.36A**	**otherwise**
31 December 2001	4 months	3 months and 15 days
31 December 2002 and following years	3 months	2 months and 15 days

~~(1A) For a *financial year* ending on a date from 31 December 2002 to 30 December 2003, the deposit periods for the 'required copies' of **Form 9A** set out in (1) are extended by 1 month.~~

…

Value of assets and amount of liabilities

9.10 Unless otherwise provided in the *Accounts and Statements Rules,* in the documents which an *insurer* is required to prepare in accordance with the *Accounts and Statements Rules* –

(a) the value or amount given for an asset ~~(other than a *linked asset* not required to be valued in accordance with the *Valuation of Assets Rules* by virtue of rule 4.1(2))~~ or a liability of the *insurer* is the value or amount of that asset or liability as determined in accordance with ~~the~~ *PRU* 1.3 ~~*Valuation of Assets Rules*~~ and ~~the *Determination of Liabilities Rules*~~ *PRU*

7 at the end of *the financial year in question*; ~~and~~

(b) ~~in the case of a *linked asset* of the *insurer* (other than a *linked asset* required to be valued in accordance with the *Valuation of Assets Rules* by virtue of rule 4.1), the value given is the value of that asset as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate for *insurers*.~~no value shall be given to exposures in excess of the limits set out in *PRU* 3.2.22R (3);

(c) notwithstanding (a) and (b) (but subject to the conditions set out in (d)), an *insurer* may, for the purposes of an *actuarial investigation*, elect to assign to any of its assets the value given to the asset in question in the books or other records of the *insurer*; and

(d) the conditions referred to in (c) are that –

(i) the election does not enable the *insurer* to bring into account any asset that is not an *admissible asset*; and

(ii) the value assigned to the aggregate of the *insurer's* assets is not higher than the aggregate of the value of those assets as determined in accordance with (a) and (b), without taking advantage of (c).

…

Balance sheet

9.12 (1) The balance sheet required to be prepared by an *insurer* under rule 9.3(1) must comply with the requirements of **Appendix 9.1** and must be in **Forms 1 to 3,** ~~**9**~~ **10** to **15 and** **17** to **19** of that Appendix completed (as may be appropriate) as specified in (2) to (~~8~~9).

(2) **Form** ~~**9**~~ **1** must be completed by every *insurer* that carries on *general insurance business*, other than a *Swiss general insurer* or an *EEA-deposit insurer*.

(2A) **Form** ~~**9A**~~ **2** must be completed by every *long-term insurer*, other than an *EEA-deposit insurer* ~~in respect of the *long-term insurance business* carried on by the insurer~~.

(3) **Form** ~~**10**~~ **3** must be completed by every *insurer* other than a *Swiss general insurer* or an *EEA-deposit insurer.*

(3A) **Form 10** must be completed by an *external insurer* (other than a *pure reinsurer*), an *EEA-deposit insurer* or a *Swiss general insurer.*

(4) **Forms 11** and **12** must be completed by every *insurer* which carries on *general insurance business*, other than a *Swiss general insurer* or an *EEA*

deposit insurer and, except when the instructions for completion of **Forms 11** and **12** specify otherwise, by every *insurer* which carries on *long-term insurance business*.

(5) …

(a) …

(i) its total *long-term insurance* ~~*business*~~ *assets*; and

(ii) the *long-term insurance* ~~*business*~~ *assets* appropriated by it in respect of each *long-term insurance fund* or, where such assets have been appropriated for a group of funds, those assets;

(b) by every *insurer* in respect of its total assets other than *long-term insurance* ~~*business*~~ *assets*;

(c) by every *external insurer* (other than a *pure reinsurer*) in respect of *long-term insurance business* or *general insurance business* carried on by it through a branch in the United Kingdom in respect of those assets which are -

(i) deposited under ~~rule 8.1~~ *PRU* 7.6.54R,

(ii) maintained in the United Kingdom, and

(iii) maintained in the United Kingdom and the other *EEA States*; and

(d) by every *UK-deposit insurer* in respect of *long-term insurance business* or *general insurance business* carried on by it through branches in the *EEA States* in respect of those assets which are -

(i) deposited under ~~rule 8.1~~ *PRU* 7.6.54R,

…

(6) **Form 14** must be completed by every *long-term insurer* in respect of -

(a) its total *long-term insurance* ~~*business*~~ *liabilities* and margins; and

(b) the *long-term insurance* ~~*business*~~ *liabilities* and margins for each *long-term insurance fund* or where *long-term insurance* ~~*business*~~ *assets* have been appropriated in respect of a group of funds, for the ~~*group*~~ group.

…

(9) **Forms 18** and **19** must be completed by every *long-term insurer* which is a *realistic basis life firm*, in respect of each of its *with profits funds.*

...

Additional information on general insurance business ~~(other than credit insurance business)~~

9.22 (1) This rule applies to ~~*Part II business*~~ non-credit *insurance business* as defined in *PRU* 7.5.11R (1) and ~~*Part III business*~~ credit *insurance business* as defined in *PRU* 7.5.38R.

(2) An ~~*Part II*~~ *insurer* to which *PRU* 7.5.11R to *PRU* 7.5.37G apply (unless *PRU* 7.5.18R applies) and an ~~*Part III*~~ *insurer* to which *PRU* 7.5.43R applies (unless *PRU* 7.5.44R applies must, in accordance with the requirements of **Appendix 9.2**, prepare -

(a) **Form 37**;

(b) **Form 38** for business reported on **Forms 21, 22** and **23**; and

(c) **Form 39** for business reported on **Forms 24** and **25**.

…

Additional information on general insurance business: major treaty reinsurers

9.25 …

(2) …

(b) in relation to which (whether alone or with any *company* which is 'connected' with the other *company*) the aggregate of the amounts referred to in (1)(d) and (f) exceeds the sum of 20,000 Euro and 5% of the *insurer's* liabilities arising from its *general insurance business* ~~*amount*~~, net of *reinsurance ceded*.

Additional information on general insurance business: major facultative reinsurers

9.26 …

(2) …

(b) in relation to which, in respect of any *reinsurer* (a **major facultative reinsurer**) the aggregate of amounts in (1)(d) and (e) exceeds the sum of 4,000 Euro and 1% of the *insurer's* liabilities arising from its *general insurance business* ~~*amount*~~, net of *reinsurance ceded.*

…

Additional information on derivative contracts

9.29 (1) Every *insurer* must, in respect of the *financial year in question*, annex to the documents referred to in rules 9.12, 9.13 and 9.14 a statement comprising a brief description of -

…

(h) the circumstances surrounding the use of any '*derivative contract*' held at any time during the *financial year* which ~~did not fall within rule 4.12 (2)~~ required a 'significant' provision to be made for it under *PRU* 4.3.17R, or (where appropriate) did not fall within the definition of a *permitted derivative contract*; and

…

(1A) For the purposes of determining in accordance with (1)(h) whether a required provision is 'significant', the *insurer* must have regard to its obligations under the contract and the volatility of the assets identified by the *insurer* as being suitable to cover such obligations; and the required provision in respect of any one *derivative contract* must be treated as **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.

(2) In this rule, **derivative contract** includes a contract or asset which 'has the effect of a *derivative contract*' ~~within the meaning of rule 4.13~~ and, for the purposes of (1)(h), such a contract or asset must be treated as requiring a significant provision or falling within ~~rule 4.12(2), or~~ the definition of *derivative contract* which would require a significant permitted derivative contract, as appropriate, if it has the effect of a provision or fall within that provision definition.

(2A) Subject to (2C), for the purposes of (2), 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 *insurer* 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 to or by the *insurer* of an asset other than any office machinery (including computer equipment), furniture, motor vehicles and other equipment; or

(c) for the conversion of an asset held by the *insurer* or another party to –

(i) an asset of a different type, or

(ii) a different asset of the same type.

(2B) Subject to (2C), for the purposes of (2) an asset has the effect of a *derivative contract* if the asset is an asset (other than an *approved security* or a unit, or other beneficial interest, in a scheme falling within the *UCITS Directive*) 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 (2A)(a) to (c).

(2C) 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 commencing at the date of the contract and extending –

(i) in the case of a *listed security*, 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 facilities for dealing have been granted, or

(ii) in any other case, for no more than 20 working days;

(b) it is a contract for the conversion of currency in respect of which the conditions set out in (2D) have been satisfied; or

(c) it is a *stock lending* transaction which satisfies the conditions of *PRU* 4.3.36R.

(2D) The conditions referred to in (2C)(b) are that –

(a) the contract provides –

(i) 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) 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*, 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 20 working days thereafter; and

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

…

~~**Periodic actuarial investigation**~~ **Valuation reports on long-term insurance business**

9.31 ~~Save in relation to (b), for the purposes of rule 9.4, *ordinary long-term insurance business* and *industrial assurance business* must be treated separately~~, ~~and~~ ~~the~~ Every *insurer* which carries on *long-term insurance business* must prepare and annex to the documents referred to in rules 9.12, 9.13 and 9.14 -

(a) for the purposes of rule 9.4 other than in relation to the calculation required by rule 9.4(2)(c), a valuation ~~the abstract of the~~ report ~~of the *appointed actuary*~~ ~~on *long-term insurance business*~~ which, – treating *ordinary long-term insurance business* and *industrial assurance business* separately, ~~must comply~~ complies with the requirements of **Appendix 9.4** and ~~must~~ contains the information ~~(together with such of **Forms 46** to **49** and **51** to **58** as may be appropriate)~~ specified in that Appendix; and

(b) ~~except in the case of an *EEA-deposit insurer*, must also include **Form 60** and, where appropriate, **Form 61**~~for the purposes of rule 9.4 in relation to the calculation required by rule 9.4(2)(c) (if applicable), a valuation report for the realistic valuation which complies with the requirements of **Appendix 9.4A** and contains the information specified in that Appendix.

…

Signature of documents

9.33 (1) In respect of any document relating to the *insurance business* of an *insurer*, wherever it may be carried on, the signatories for the purposes of rule 9.6 are -

~~(a) in any case -~~

(~~i~~ a) where there are more than two *directors* of the *insurer*, at least two of those *directors* and, where there are not more than two *directors*, all the *directors*, and

(~~ii~~ b) a chief executive, if any, of the *insurer* or (if there is no chief executive) the secretary, if any~~; and~~

~~(b) in the case of an abstract under rule 9.4, the actuary who made the investigation to which the abstract relates~~.

(2) In respect of any document relating to *insurance business* carried on through a branch in the United Kingdom by a *Swiss general insurer*, an *EEA-deposit insurer* or an *external insurer* or through branches in any *EEA State* (taken together) by a *UK-deposit insurer*, the signatories for the purposes of rule 9.6(3) are -

~~(a) in any case -~~

(~~i~~ a) the authorised UK representative referred to in ~~rule 8.3 or 8.4, as the case may be~~ article 3(1)(a) of The Financial Services and Markets Act 2000 (Variation of Threshold Conditions) Order 2001 (2001/2507), and

(~~ii~~ b) the chief executive appointed under rule 8.3 or, in the case of a *Swiss general insurer*, a person who alone or jointly with one of more others, is responsible for the conduct of its *insurance business* through the branch~~; and~~

~~(b) in the case of an abstract under rule 9.4, the actuary who made the investigation to which the abstract relates~~.

Certificate~~s~~ by Directors

9.34 There must be annexed to the documents referred to in rules 9.12, 9.13 and 9.14 ~~(a)~~ a certificate in accordance with the requirements of Part I of **Appendix 9.6** which must be signed by the persons required by rule 9.33 to sign the documents to which the certificate relates~~; and~~.

~~(b) in the case of an *insurer* which has at any time during the *financial year in question* carried on *long-term insurance business*, a certificate in accordance with the requirements of Part II of **Appendix 9.6** which must be signed by the *appointed actuary*.~~

Audit and auditor's report

9.35 (1) The documents referred to in rules 9.12, 9.13 and 9.14, together with **Forms 40** to **45**, **48**, **49**, **56**, **58** and **60**, and every statement, analysis~~,~~ or report ~~or certificate~~ annexed pursuant to rules 9.24 to 9.27, 9.29 and 9.31 ~~9.34(a)~~ must be audited by a person, in accordance with the rules in *SUP*, who must make and annex to those documents a report in accordance with the requirements of Part II ~~III~~ of **Appendix 9.6**.

(1A) For the purposes of rule 9.5 and (1) and **Appendix 9.6**, to the extent that any document, form, statement, analysis or report to be audited under (1) contains amounts or information abstracted from the *actuarial investigation* performed pursuant to rule 9.4, the *insurer* must ensure that the auditor obtains and pays due regard to advice from a suitably qualified *actuary* who is independent of the *insurer*.

(2) …

Information on the ~~appointed actuary~~ actuary who has been appointed to perform the with-profits actuary function

9.36 (1) Subject to the provisions of this rule, there must be annexed to the documents referred to in rules 9.12, 9.13 and 9.14, with respect to every person who, at any time during the *financial year in question*, was the ~~*appointed actuary*~~ *actuary* who has been appointed to perform the *with-profits actuary function* ~~to~~ for the *insurer*, a statement of the following information -

(a) particulars of any *shares* in, or debentures of, 'the *insurer*' in which the ~~*appointed*~~ 'actuary' was 'interested' at any time during that year;

…

Part II

ACCOUNTS AND STATEMENTS FOR A MARINE MUTUAL

Returns

9.36A Subject to rules 9.36B, 9.36C, 9.36D and 9.36E and **Appendix 9.8**, a *marine mutual* may complete an abbreviated *return* which comprises –

(1) **Forms** <u>**1, 3,**</u> **11** and **12**; and

(2) **Forms M1** to **M5** in **Appendix 9.8,**

and, if so, rules 9.3 to 9.4, 9.12 to 9.28, 9.31 and 9.32 and 9.34 to 9.36 do not apply.

…

PART IV

MATERIAL CONNECTED-PARTY TRANSACTIONS

9.39 (1) If, during the *financial year in question*, an *insurer* has agreed to, or carried out, a *material connected-party transaction*, it must provide a brief description of that transaction by way of a supplementary note to **Form 20** <u>(note 2007)</u> or **Form 40** <u>(note 4009)</u>.

…

<u>**PART V**</u>

<u>**GROUP CAPITAL ADEQUACY**</u>

<u>9.40</u> <u>(1)</u> <u>Subject to (2), an *insurer* to which *PRU* 8.3 applies must, in respect of its *ultimate insurance parent undertaking* and its *ultimate EEA insurance parent undertaking* (if different), submit a report of:</u>

(a) the *group capital resources* of that *undertaking* (as calculated in accordance with *PRU* 8.3.36R); and

(b) the *group capital resources requirement* of that *undertaking* (as calculated in accordance with *PRU* 8.3.33R).

(2) An *insurer* is not required to submit the report referred to in (1) where:

(a) The *insurer* is an *undertaking* listed in *PRU* 8.3.17R (2); or

(b) under Article 4(2) of the *Insurance Groups Directive*, a *competent authority* of an *EEA State* other than the *United Kingdom* has agreed to be the *competent authority* responsible for exercising supplementary supervision in accordance with *PRU* 8.3.23R.

(3) The report required in (1) must:

(a) comply with the requirements of *SUP* 16.3;

(b) subject to (d), be signed by the persons described in *IPRU(INS)* 9.33(1);

(c) include a statement from the auditors of the *insurer* (or of an *insurer* under (d)) that, in their opinion, the report has been properly compiled in accordance with *PRU* 8.3 from information provided by members of the *insurance group* and from the *insurer's* own records; and

(d) be provided by either the *insurer* or on behalf of the *insurer* (the first *insurer*) by any other *insurer* to which *PRU* 8.3 applies and which is a member of the *insurance group* (the second *insurer*) where:

(i) it is signed by two *directors* of the second *insurer*, and

(ii) it contains a statement that it has been copied to the board of *directors* of the first *insurer*.

9.41 (1) Subject to (2), an *insurer* must include, in the report in rule 9.40(1), the details of any *regulated related undertaking* in the *insurance group* where the *individual capital resources requirement* of that *undertaking* exceeds its *solo capital resources*, stating in each case:

(a) where the *undertaking* in rule 9.41(1)(a) is a *subsidiary undertaking* of the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* (if different), the full amount of the calculation items set out in *PRU* 8.3.28R of that *undertaking* in accordance with *PRU* 8.3.30R and *PRU* 8.3.31R; or

(b) where the *undertaking* in rule 9.41(1)(a) is not a *subsidiary undertaking*, the *ultimate insurance parent undertaking's* or *ultimate EEA insurance parent undertaking's* relevant proportion, as set out in *PRU* 8.3.29R, of the calculation items set out in *PRU* 8.3.28R of that *undertaking*.

(2) Subject to paragraph (4) an *insurer* can exclude a *regulated related undertaking* where the *individual capital resources requirement* of that *undertaking* exceeds its *solo capital resources* if:

(a) the *group capital resources* of the *ultimate insurance parent undertaking* or the *ultimate EEA insurance parent undertaking* (as the case may be) exceed its *group capital resources requirement*;

(b) paragraph 3 applies to the *regulated related undertaking*.

(3) This paragraph applies to a *regulated related undertaking* if:

(a) in respect of the *insurance group*, it is not;

(i) the *insurer*; or

(ii) a *parent undertaking* of the *insurer*; or

(iii) a *participating undertaking* in the *insurer*; or

(iv) a *related undertaking* of the *insurer*; and

(b) the amount by which its *individual capital resources requirement* exceeds its *solo capital resources* does not exceed 5% of the amount that the *group capital resources* exceed the *group capital resources requirement* referred to in rule (2)(a)

(4) An *insurer* must include *regulated related undertakings* to which paragraph (2) would apply if the amount of D less E exceeds 10% of the amount that the *group capital resources* exceed the *group capital resources requirement* referred to in rule (2)(a), where:

(a) D is the sum of the *individual capital resources requirements* of the *regulated related undertakings*; and

(b) E is the sum of the *solo capital resources* of the *regulated related undertakings*.

9.42 (1) The report in rule 9.40(1) must include information and calculations required by 9.40 and 9.41:

(a) as at the end of the *financial year* of:

(i) the *insurer*; or

(ii) the *ultimate EEA insurance parent undertaking*; or

(iii) the *ultimate insurance parent undertaking*.

(b) subject to (2), as at the same date for every member of the *insurance group* to which the report relates. Where the *financial year* end of a member of the *insurance group* differs from the date chosen for the purposes of 1(a), interim calculations must be prepared for that member as at the date chosen for the purposes of 1(a); and

(c) as at a date no later than 12 months from the day after the end of the *financial year* by reference to which the information and calculations required in the report were last provided under this chapter or Chapter 10 of *IPRU(INS)*.

(2) If it is not practical to prepare interim calculations for a member of the *insurance group* whose *financial year* end differs from the date chosen for the purposes of 1(a), calculations as at the member's last *financial year* end may be used, provided that:

(a) the member's *financial year* end is not more than three months before the date chosen for the purposes of 1(a); and

(b) the calculations are adjusted to take account of any changes between the *financial year* end and the date chosen for the purposes of 1(a) that materially affect the information and calculations required by rules 9.40 and 9.41.

(3) If for any reason the end of the *financial year* chosen for the purposes of (1)(a) is changed so as to end on a date later than that specified in 1(c):

(a) the report after the change takes effect must be as at the later date; but

(b) unless the report contains information and calculations that do not materially differ from what they would be as at the date specified in 1(c), the *insurer* must also provide the *FSA* with an interim statement.

(4) The report in rule 9.40(1) must be provided to the *FSA* no later than 4 months from the end of:

(a) The *financial year in question*; or

(b) the *financial year* of the relevant parent, where the report is provided as at the end of its *financial year* under (1)(a).

Guidance

9.43 (1) An *insurer* may use Appendix 9.9 Form 95 for the purposes of the report required by rule 9.40(1).

(2) The report required by rule 9.40(1) does not form part of the *insurer's return*.

(3) Where several *insurers* to which rule 9.40 applies have the same *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* or both, rule 9.40 applies to all of them. In these circumstances one *insurer* may submit the report in rule 9.40 on behalf of the other *insurers* in the *insurance group* as set out in rule 9.40(3)(d). This should consist of one package of the relevant information with confirmation that

the *insurer* submitting the information has made it available to the boards of directors of the other *insurers* in the *insurance group.* The purpose of this requirement is to ensure that all the *insurers* in the *insurance group* are aware of the relevance of the group information to themselves.

(4) Where an *insurance group* consists of an *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* which is itself an *insurer* whose head office is in the *United Kingdom* and which has a *United Kingdom insurance subsidiary* or *subsidiaries* which is or are themselves *insurers*, the report in rule 9.40 will cover the same *group undertakings*. The subsidiary *insurer* need not in these circumstances deposit the report in rule 9.40. However, this does not affect the requirement to provide information under rule 9.41.

Chapter 10 (Parent undertaking solvency calculation) is deleted

Chapter 10

[deleted]

Amend or delete the following definitions in chapter 11 as shown (unchanged definitions are not shown):

Chapter 11

DEFINITIONS

PART I

DEFINITIONS

11.1 For the purposes of *IPRU (INS),* the term or phrase in the first column has the meaning given to it in the second column unless the context otherwise requires.

Term or phrase	**Definition**
~~*1980 Regulations*~~	~~Insurance Companies (Accounts and Statements) Regulations (S.I. 1980 No. 6)~~

…

~~*Accounts Directives*~~	~~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~~
~~*accumulating with-profits policy*~~	~~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~~
~~*Act*~~	~~Financial Services and Markets Act 2000~~
admissible asset	an asset ~~which is not required by rule 4.1(3) to be left out of account for the purposes specified in rule 4.1(1)~~ <u>that falls into one or more categories in *PRU* 2 Annex 1R</u>
~~*Amortised value*~~	~~the amortised value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to *insurers*~~
~~*ancillary risk*~~	~~(a) in relation to an *insurer* 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 -~~ ~~- connected with the principal risk,~~ ~~- concerned with the object which is covered against the principal risk, and~~ ~~- the subject of the same contract insuring the principal risk;~~ ~~(b) but, the risks included in *classes* 14, 15 and 17~~

	~~may not be treated as risks ancillary to other *classes*;~~ ~~(c) except, the risk included in *class* 17 (legal expenses insurance) may be regarded as an ancillary risk of *class* 18 where the conditions laid down in (a) are fulfilled and where the principal risk relates solely to assistance provided for persons who fall into difficulties while travelling, while away from home or while away from their permanent residence or where it concerns disputes or risks arising out of, or in connection with, the use of sea-going vessels~~
~~*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~~
~~*appointed actuary*~~	~~the person appointed as actuary to an *insurer* under the rules in *SUP*~~
~~*approved counterparty*~~[3]	~~any of the following -~~ ~~(a) an *approved credit institution*;~~ ~~(b) a person permitted under the *Act* to conduct investment business of a kind which includes entering into *unlisted derivative contracts* as principal; or~~ ~~(c) 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*~~	~~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 Co-ordination Directive* and, for the purposes of a *deposit* made before 1 December 2001, the Accountant General of the Supreme Court~~

[3] ~~For guidance, see paragraph 3 of **Guidance Note 4.1**~~

~~*approved financial institution*~~	~~any of the following -~~ • ~~the European Central Bank;~~ • ~~the central bank of an *EEA State*;~~ • ~~the International Bank for Reconstruction and Development;~~ • ~~the European Bank for Reconstruction and Development;~~ • ~~the International Finance Corporation;~~ • ~~the International Monetary Fund;~~ • ~~the Inter-American Development Bank;~~ • ~~the African Development Bank;~~ • ~~the Asian Development Bank;~~ • ~~the Caribbean Development Bank;~~ • ~~the European Investment Bank;~~ • ~~the European Community;~~ • ~~the European Atomic Energy Community;~~ • ~~the European Coal and Steel Community.~~
approved index	(a) an index which is - (i) calculated independently, (ii) published at least once every week, (iii) based on constituents, each of which is property falling within paragraphs (1) to (8) or (10) of Part I of **Appendix 3.2**, and (iv) calculated on a basis which is made available to the public and which includes both the rules for including and excluding constituents and the rules for valuation which must use an arithmetic average of the value of the constituents; (b) 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 the *Banking ~~Co-ordination~~ <u>Consolidation</u> Directive*; or

	(c) an index which is - (i) based on constituents, each of which is property falling within paragraphs (1) to (8) or (10) of Part I of **Appendix 3.2**, and (ii) in respect of which a *derivative contract* is *listed*
approved securities	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*~~ Consolidation *Directive*; (b) any loan to, or deposit with, an *approved financial institution*; and (c) debentures issued prior to 31 December 1994 by the Agricultural Mortgage Corporation Ltd or the Scottish Agricultural Securities Corporation Ltd
~~*assessable mutual*~~	~~a mutual association -~~ ~~(a) where the *insurance business* carried on by the association is limited to the provision of insurance to its members; and~~ ~~(b) whose articles of association, rules or bye laws provide for the calling of additional contributions from members to meet claims~~
~~*Asset Identification Rules*~~	~~the rules in Part I of Chapter 3~~
~~*authorised person*~~	~~a person who is authorised for the purposes of the *Act*~~
~~*AUTH*~~	~~the Authorisation manual~~

available assets	the excess of an *insurer's* assets (other than *implicit items*) over its liabilities, in each case valued in accordance with ~~the *Valuation of Assets Rules* and the *Determination of Liabilities Rules* and rule 2.10~~ *PRU* 1.3, *PRU* 3.2 and *PRU* 7
~~*Banking Co-ordination Directive*~~	~~Council Directive of 20 March 2000, relating to the taking up and pursuit of the business of credit institutions (2000/12/EC)~~
~~*body corporate*~~	~~includes a body corporate constituted under the law of a country or territory outside the United Kingdom~~
~~*building society*~~	~~a building society within the meaning of the Building Societies Act 1986~~
~~*business amount*~~	~~(a) for a company carrying on only *general insurance business*, the *general insurance business* amount;~~ ~~(b) for a company carrying on only *long-term insurance business*, the *long-term insurance business* amount; and~~ ~~(c) for a company carrying on both *general insurance business* and *long-term insurance business*, in the case of its *general business assets*, the *general insurance business amount* and in the case of its *long-term insurance business assets*, the *long-term insurance business amount*~~
~~*business group*~~	~~a group comprising descriptions of *general insurance business* determined in accordance with rule 6.6~~
~~*business group maximum*~~	~~has the meaning given in Part III of **Appendix 6.1**~~
~~*charges for management*~~	~~amounts chargeable in respect of the management of an *internal linked fund* in accordance with 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~~
~~*collective investment scheme*~~	~~has the meaning given in section 235 of the *Act*~~

~~*commission payable*~~	~~in relation to *long-term insurance business*, the amounts recorded during a *financial year* of the *insurer* 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~~
company	(a) for the purposes of the *Accounts and Statements Rules* means an *insurance undertaking*; and (b) otherwise ~~for the purposes of the *Valuation of Assets Rules* and the *Determination of Liabilities Rules*,~~ includes any *body corporate*
~~*contract for differences*~~	~~a contract for differences or any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in –~~ ~~(a) the value or price of property of any description; or~~ ~~(b) an index or other factor designated for that purpose in the contract~~
~~*contracts of insurance*~~	~~includes:~~ ~~(a) fidelity bonds, performance bonds, administration bonds, bail bonds, customs bonds, or similar contracts of guarantee effected in return for the payment of one or more premiums;~~ ~~(b) tontines;~~ ~~(c) when effected or carried out by a body that carries on the business of effecting or carrying out *contracts of insurance* apart from this paragraph, capital redemption contracts and *pension fund management contracts*;~~ ~~(d) contracts to pay *annuities on human life*;~~ ~~(e) contracts of a kind referred to in article 1(2)(e) of the *First Life Directive*; and~~ ~~(f) contracts of a kind referred to in article 1(3) of the *First Life Directive*~~

~~*contractually based investment*~~	~~(a) right under a *qualifying contract of insurance;*~~ ~~(b) any investment of the kind specified by any of articles 83, 84, 85 of the *Regulated Activities Order*; or~~ ~~(c) any investment of the kind specified by article 89 of the *Regulated Activities Order* so far as relevant to an investment falling within (a) or (b)~~
~~*credit insurance business*~~	~~*Insurance business* falling within *general insurance business class* 14 that is not *reinsurance*~~
~~*Currency Matching and Localisation Rules*~~	~~the rules in Chapter 7~~
~~*dealings with or by a counterparty*~~	~~see *counterparty*~~
~~*debt security*~~	~~includes bonds, notes, debentures and debenture stock~~
~~*deferred acquisition costs*~~	~~those items shown at GII under the heading 'Assets' set out in paragraph 9 of Schedule 9A to the *Companies Act*~~
dependant	~~a *subsidiary undertaking* the value of whose *shares* is taken to be the value of its *surplus assets* under rule 4.2(1) or (1A)(a)~~ a dependant is: (a) for a *firm* that is not a *participating insurance undertaking* (and so is not subject to *PRU* 8.3.9R), any *subsidiary undertaking* that is valued in accordance with *PRU* 1.3.35R;or (b) for a *firm* that is a *participating insurance undertaking* (and so is subject to *PRU* 8.3.9R as referred to in *PRU* 2.1.9R(2)), any *subsidiary undertaking* that is either (1) a *regulated related undertaking* in respect of which no election has been made in accordance with *PRU* TR 25R, or (2) a *subsidiary undertaking* of the *firm*, not referred to in (1), that is valued in accordance with *PRU* 1.3.35R.
~~*deposit, and*~~	~~the deposit mentioned in rule 8.1, and~~

~~*depositor*~~	~~depositor means an *insurer* making (or intending to make) such a deposit~~
~~*deposit back arrangement*~~	~~in relation to any contract of *reinsurance*, means an arrangement whereby an amount is deposited by the *reinsurer* with the *cedant*~~
~~*designated state or territory*~~	~~any *EEA State* (other than the United Kingdom), Switzerland, a state in the United States of America, the District of Columbia, Puerto Rico, Canada or a province of Canada, Australia, South Africa, Singapore and Hong Kong~~
derivative contract	~~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~~ has the meaning given to *derivative* in the *Glossary*
~~*Determination of Liabilities Rules*~~	~~the rules in Chapter 5~~
~~*Directive*~~	~~see –~~ ~~*Investment Services Directive*~~ ~~*First Life Directive*~~ ~~*First Non-Life Directive*~~ ~~*Banking Co-ordination Directive*~~ ~~*Third Life Directive*~~ ~~*Third Non-Life Directive*~~ ~~*Life Assurance Directive*~~
~~*director*~~	~~in relation to a *body corporate*, includes -~~ ~~(a) person occupying in relation to it the position of a director (by whatever name called); and~~ ~~(b) a person in accordance with whose directions or instructions (not being advice given in a professional capacity) the directors of that body are accustomed to act~~
~~*EEA-deposit insurer*~~	~~a *non-EEA insurer* which has made a *deposit* in an *EEA State* (other than the United Kingdom) in accordance with rule 8.1(2)~~

~~*EEA insurer*~~	~~an *insurer*, other than a *pure reinsurer* or a *non-directive insurer*, whose head office is in any *EEA State* except the United Kingdom and which has received authorisation under article 6 of the *First Life Directive* or of the *First Non- Life Directive* from its home state regulator~~
~~*EEA insurance parent undertaking*~~	~~an *insurance parent undertaking* that has its head office in the United Kingdom or another *EEA State*~~
~~*EEA margin of solvency*~~	~~the *margin of solvency* of an *insurer* computed by reference to the assets and liabilities of the business carried on by the *insurer* in *EEA States* (taken together) in accordance with rule 2.4(2)(b)~~
~~*EEA State*~~[4]	~~a State which is a contracting party to the agreement on the European Economic Area signed at Oporto on 2 May 1992 as it has effect for the time being~~
~~*equalisation reserve*~~	~~a reserve to be maintained under the *Equalisation Reserves Rules*~~
~~*Equalisation Reserves Rules*~~	~~the rules in Chapter 6~~
~~*equity share capital*~~	~~in relation to a *company*, its issued *share* capital excluding any part which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution~~
~~*excess concentration with a number of counterparties*~~	~~is determined in accordance with paragraph 17 of **Appendix 4.2**~~
~~*exposure*~~	~~(a) in relation to assets, means an amount determined in accordance with rule 4.14 and paragraphs 4 to 11A of **Appendix 4.2**; and~~ ~~(b) in relation to a *counterparty*, means an amount termined in accordance with rule 4.14 and paragraphs 13 to 15A of **Appendix 4.2**~~
external insurer	an *insurer* whose head office is outside the United

[4] ~~These comprise the 15 EU states (ie the United Kingdom, Portugal, Spain, France, Italy, Ireland, Belgium, Luxembourg, the Netherlands, Denmark, Germany, Greece, Austria, Sweden and Finland) plus Norway, Iceland and Liechtenstein.~~

	Kingdom, other than an *EEA-insurer*, a *Swiss general insurer* or an ~~*insurer* to which rule 8.1(2) applies~~ <u>*UK*- or *EEA-deposit insurer*</u>.
financial year	~~(a) for the purposes of the *Equalisation Reserves Rules*, a period of account; and~~ ~~(b) for all other purposes,~~ each period at the end of which the balance of the accounts of the *insurer* is struck or, if no such balance is struck, the calendar year
~~*firm*~~	~~an *authorised person*~~
~~*first calculation*~~	~~in relation to the *Margins of Solvency Rules*, is the calculation described in rules 2.5(1) and (2)~~
~~*First Life Directive*~~	~~Council Directive (79/267/EEC) of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance~~
~~*First Non-Life Directive*~~	~~Council Directive (73/239/EEC) of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct insurance other than life insurance~~
~~*fixed interest securities*~~	~~*securities* which under their terms of issue provide for fixed amounts of interest~~
~~*friendly society*~~	~~an *incorporated friendly society* or *registered friendly society*~~
~~*futures contract*~~	~~a contract for the sale or delivery of a commodity or property of any other description under which delivery is to be made at a future date and at a price agreed on when the contract is made~~
~~*FSA*~~	~~Financial Services Authority~~
~~*general insurance business*~~	~~the business of effecting or carrying out *general insurance contracts*~~
~~*general insurance business amount*~~	~~is the higher of -~~ ~~(a) the total of:~~

	~~(i) the *insurer's insurance liabilities* (net of *reinsurance ceded*) in respect of *general insurance business* less *debts* -~~ ~~(A) which are due from *dependants* to which paragraph 11C of Part I of Appendix 4.2 relates,~~ ~~(B) which are not *reinsurance* which has already been netted off the *insurer'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 *insurer'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 *insurer* may select not exceeding:-~~ ~~(i) the value of its *general insurance business assets* as determined in accordance with the *Valuation of Assets Rules*,~~ ~~(ii) excluding *debts* due from *dependants* to which paragraph 11C of Part I of Appendix 4.2 relates and *reinsurance recoveries*; and~~ ~~(iii) less *debts* due to *dependants* of the *insurer* 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 11C of Part I of Appendix 4.2 does not relate, the amount deducted will not exceed the *dependant's surplus assets* (or *proportional share*)~~

~~*general insurance business assets,* and~~ ~~*general insurance business liabilities*~~	~~respectively assets and liabilities of an *insurer* which are not *long-term insurance business assets or long-term insurance business liabilities*~~
~~*general insurance contract*~~	~~any *contract of insurance* falling within Part I of **Annex 11.2**~~
~~*general insurer*~~	~~an *insurer* whose business includes effecting or carrying out *general insurance contracts*~~
~~*general policy*~~	~~a policy evidencing a contract the effecting or carrying out of which constitutes the carrying on of *general insurance business*~~
~~*general premium income*~~	~~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 an *insurer* 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 *insurer*; and~~ ~~(b) includes premiums receivable by the *insurer* under *reinsurance* contracts accepted by the *insurer*~~
~~*gross premiums earned*~~	~~in respect of a *financial year*, such proportion of *gross premiums written* or *gross premiums receivable*, as the case may be, as is attributable to risk borne by the *insurer* during that *financial year*.~~
~~*gross premiums written*~~	~~the amounts required by the *insurance accounts rules* to be shown in the *profit and loss account* of a *company* at general business technical account item I.1.(a), or for *class* IV *insurance business*, at *long-term business* technical account item II.1(a).~~

~~*group undertaking*~~	~~any of:~~ ~~(a) the *insurer*;~~ ~~(b) its *related undertakings*;~~ ~~(c) its *participating undertakings*; and~~ ~~(d) the *related undertakings* of its *participating undertakings*~~
~~*guarantee fund*~~	~~has the meaning given in rule 2.9~~
~~*holding company*~~	~~is construed in accordance with section 736 of the *Companies Act* or Article 4 of the *1986 Order*~~
~~*hybrid linked contract*~~	~~a *contract of insurance* the effecting of which constitutes the carrying on of *long-term insurance business* and which contains an option such that at some future time the contract may, according to how such option is exercised, constitute either a *linked contract* or a *non-linked contract*~~
~~*implicit item*~~	~~has the meaning given in rule 2.10(5)~~
~~*incorporated friendly society*~~	~~a society incorporated under the Friendly Societies Act 1992~~
~~*index linked benefits*~~	~~benefits -~~ ~~(a) provided for under a *linked long-term contract*; and~~ ~~(b) determined by reference to an index of the value of property of any description (whether specified in the contract or not)~~
index linked contract~~t~~	a *linked long-term contract* <u>*of insurance*</u> conferring *index- linked benefits*
~~*index linked liabilities*~~	~~*insurance liabilities* in respect of *index linked benefits*~~

~~*industrial and provident society*~~	~~a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969~~
~~*insurance accounts rules*~~	~~Schedule 9A to the *Companies Act* and Schedule 9A to the *1986 Order* for the preparation of accounts by *insurance undertakings*~~
~~*Insurance Accounts Directive*~~	~~Council Directive 91/674/EEC of 19 December 1991 on annual accounts and consolidated accounts of insurance undertakings~~
~~*insurance business*~~	~~the business of effecting or carrying out *contracts of insurance* as principal~~
~~*insurance group*~~	~~an *insurance parent undertaking* and its *related undertakings* that are –~~ ~~(a) *insurance undertakings*; or~~ ~~(b) *insurance holding companies*~~
~~*Insurance Groups Directive*~~	~~Directive of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group (1998/78/EC)~~
~~*insurance holding company*~~	~~an undertaking whose main business is to acquire and hold *participations* in *subsidiary undertakings*, where those *subsidiary undertakings* are exclusively or mainly *insurance undertakings*~~
insurance liabilities	amounts calculated in accordance with ~~the *Determination of Liabilities Rules*~~ <u>*PRU* 1.3 (Valuation</u>) in respect of those items shown at C and D under the heading 'Liabilities' set out in paragraph 9 of the *insurance accounts rules*
~~*insurance parent undertaking*~~	~~in relation to an *insurer*, is a *parent undertaking* of that *insurer* which is either itself an *insurance undertaking* or an *insurance holding company*~~
~~*insurance undertaking*~~	~~an undertaking, whether or not an *insurer*, which carries on *insurance business*~~

~~*insurer*~~	~~a *firm* with permission under the *Act* to effect or carry out *contracts of insurance*, other than a bank~~
~~*intermediary*~~	~~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 an *insurer*, other than a person who only publishes such invitations on behalf of, or to the order of, some other person~~
~~*Investment Services Directive*~~	~~Council Directive of 10 May 1993 on investment services in the securities field (93/22/EEC)~~
~~*IPRU (INS)*~~	~~Interim Prudential Sourcebook for Insurers~~
~~*IPRU (FSOC)*~~	~~Interim Prudential Sourcebook for Friendly Societies~~
~~*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~~
~~*leading insurance undertaking*~~	~~in relation to a *relevant co-insurance operation*, means an *insurance undertaking* which –~~ ~~(a) is recognised as the leading insurance undertaking by the other *insurance undertakings* involved in the operation; and~~ ~~(b) determines the terms and conditions of insurance for the operation~~
~~*linked long-term contract*~~	~~a contract of the kind described in rule 2.3(4), and~~ ~~linked contract and non-linked contract are construed accordingly~~
~~*LLD*~~	~~the Lloyd's Sourcebook~~
~~*localisation*~~	~~existence of assets, whether moveable or immoveable, in a State~~
~~*long-term insurance business*~~	~~the business of effecting or carrying out *long-term insurance contracts*~~

~~*long-term insurance business amount*~~	~~is the higher of -~~ ~~(a) the total of -~~ ~~(i) the *insurer'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 the amount of any *debt,* that is a *long-term insurance business asset* (excluding *reinsurance* that has already been netted off the *insurer's insurance liabilities*), due from a *dependant* to which paragraph 11C of Part I of Appendix 4.2 relates, and~~ ~~(C) less the amount of any *implicit item* valued in accordance with a waiver under section 148 of the *Act*,~~ ~~adjusted to zero where the result is negative; and~~ ~~(ii) the amount of the *required margin of solvency* for its *long-term insurance business* (or the amount of the *minimum guarantee fund* if greater) determined in accordance with rules 2.5 to 2.9 and 2.4(3) (or, in the case of an *insurer* 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 *insurer* may select not exceeding the value of its assets valued in accordance with the *Valuation of Assets Rules*:~~

~~(i) excluding:~~

~~(A) *reinsurance recoveries*;~~

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

~~(C) debts due from *dependants* of the *insurer* to which paragraph 11C of Part I of Appendix 4.2 relates; and~~

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

~~(ii) less:~~

~~(A) if the *insurer* is a *general insurer*, *debts* due to *dependants* of the *insurer* 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 *insurer* is not a *general insurer*, *debts* due to *dependants* of the *insurer* (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 11C of Part I of Appendix 4.2 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 2 of Part 1 of **Appendix 4.2**, *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, and*~~ ~~*long-term insurance business liabilities*~~	~~respectively assets of an *insurer* which are, for the time being, identified as representing the *long-term insurance fund or funds*, and liabilities of an *insurer* arising under or in connection with its *long-term insurance business*, including arising from *deposit back arrangements*~~
~~*long-term insurance contract*~~	~~any *contract of insurance* falling within **Annex 11.1**~~
~~*long-term insurance fund*~~	~~a fund maintained under rule 3.1~~
~~*long-term insurer*~~	~~an *insurer* whose business includes effecting or carrying out *long-term insurance contracts*~~
~~*majority shareholder controller*~~	~~a *shareholder controller* whose shareholding is such that the *insurer* is his *subsidiary undertaking*~~
~~*margin of solvency*~~	~~is the excess of the value of assets over the amount of liabilities, that value and amount being determined in accordance with the *Valuation of Assets Rules*, the *Determination of Liabilities Rules* and rule 2.10~~
~~*Margins of Solvency Rules*~~	~~the rules in Chapter 2~~
market value	<u>in Appendix 3.2</u> the market value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to *insurers*
material connected-party transaction	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 an *insurer* that carries on ~~either *general insurance business* or *long-term insurance business*, but not both, 5% of the *general insurance business amount* or *long-term business insurance amount*, as applicable~~ *long-term insurance business* but not *general insurance business*, 5% of the *insurer's* liabilities arising from its *long-term insurance business*, excluding *property-linked liabilities* and net of *reinsurance ceded;* or (d) in the case of an *insurer* that carries on *general insurance business*, but not *long-term insurance business*, the sum of Euro 20,000 and 5% of the *insurer's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*; or ~~(d)~~(e) in the case of an *insurer* that carries on both types of business either – (i) 5% ~~of the *long-term insurance business amount*~~ of the *insurer's* liabilities arising from its *long-term insurance business*, excluding *property- linked liabilities*, net of *reinsurance* ceded where the transaction is in connection with the *insurer's long-term* insurance *business*, or (ii) in other cases, the sum of Euro 20,000 and 5% of the *insurer's* liabilities arising from *general insurance business* net of *reinsurance ceded* ~~5% of *the general insurance business amount*~~
~~*maximum reserve*~~	~~For the purposes of the *Equalisation Reserves Rules*, the aggregate value of the *business group maxima* calculated in accordance with Part III of **Appendix 6.1**~~
~~*the minimum*~~	~~in relation to a *deposit*, means one-half of the *minimum guarantee fund* appropriate to the *margin of solvency* which the *insurer* is required to maintain under rule 2.1(2)(b) or 2.1(3)(e)~~

~~*minimum guarantee fund*~~	~~has the meaning given in rule 2.9~~
~~*mutual*~~	~~An *insurer* which -~~ ~~(a) if it is a *body corporate* has no share capital; or~~ ~~(b) a *registered society*~~
~~*net claims incurred*~~	~~in respect of a *financial year* means *claims* arising from incidents occurring during that *financial year* (including direct *claims* handling expenses), net of *reinsurance* and other recoveries but excluding *claims management costs*~~
~~*net claims paid*~~	~~in respect of a *financial year* means *claims* paid during that *financial year* (including direct *claims* handling expenses), net of *reinsurance* and other recoveries but excluding *claims management costs*, regardless of whether incidents giving rise to such *claims* occurred during that *financial year* or any preceding *financial year*~~
~~*net operating expenses*~~	~~the net amount paid in a *financial year* in respect of commissions, other acquisition expenses, administrative expenses, *reinsurance* commissions and profit participations~~
~~*net premiums earned, and*~~ ~~*net premiums written*~~	~~respectively, *gross premiums earned*, net of *reinsurance* premiums earned and *gross premiums written*, net of *reinsurance* premiums payable under *reinsurance ceded*~~
~~*non-directive insurer*~~	~~(1) an *insurer* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis;~~ ~~(2) an *insurer* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the *commitments* arising from such operations are fully covered at all times~~

	~~by *mathematical reserves*);~~ ~~(3) an *insurer* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;~~ ~~(4) a *mutual* (carrying on *long-term insurance business*) -~~ ~~(a) whose articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~ ~~(b) whose annual *gross premium* income (other than from contracts of *reinsurance*) has not exceeded 5 million Euro for each of the *financial year in question* and the two *previous financial years*;~~ ~~(5) a *mutual* (carrying on *general insurance business*) whose -~~ ~~(a) articles of association contain provisions for calling up additional contributions from members or reducing their benefits;~~ ~~(b) business does not cover liability risks, other than *ancillary risks*, or credit or suretyship risks;~~ ~~(c) *gross premium* income (other than from contracts of *reinsurance*) for the *financial year in question* did not exceed 5 million Euro; and~~ ~~(d) members provided at least half of that *gross premium* income;~~ ~~(6) an *insurer* whose *insurance business* (other than *reinsurance*) is -~~

	~~(a) restricted to the provision of assistance for persons who get into difficulties while travelling, while away from home or while away from their permanent residence;~~ ~~(b) carried out exclusively on a local basis and consists only of benefits in kind; and~~ ~~(c) such that the *gross premium* income from the provision of assistance in the *financial year in question* did not exceed 200,000 Euro; or~~ ~~(7) a *mutual* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*); and~~ ~~whose *insurance business* is limited to that described in paragraphs (1) to (7)~~
~~*non-EEA insurer*~~	~~An *insurer*, other than a *pure reinsurer*, whose head office is not in an *EEA State*~~
~~*non-linked contract*~~	~~see *linked long-term contract*~~
~~*notional group solvency margin*~~	~~in relation to an *ultimate insurance parent undertaking* or an *ultimate EEA insurance parent undertaking,* the sum of:~~ ~~(a) the *notional required minimum margin* (if any) of that parent; and~~ ~~(b) the sum of that parent's *proportional shares* of the *notional required minimum margins* of *its related insurance undertakings*~~

~~*notional required minimum margin*~~	~~(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 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 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* 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)~~
~~*nuclear installation*~~	~~any installation prescribed by the Nuclear Installations Regulations 1971~~
~~*nuclear matter, and nuclear reactor*~~	~~have the same meanings as in the Nuclear Installations Act 1965~~
~~*nuclear risks*~~	~~risks falling within any *class* of *general insurance business* and arising in connection with the construction or use of any *nuclear reactor* or *nuclear installation* or the carriage of any *nuclear matter*~~

~~*option*~~	~~an option to acquire or dispose of –~~ ~~(a) an investment falling within any of articles 76 to 82 or, so far as relevant to those articles, within article 89 of the *Regulated Activities Order*;~~ ~~(b) a *contractually based investment*;~~ ~~(c) currency of the United Kingdom or of any other country or territory;~~ ~~(d) palladium, platinum, gold or silver; or~~ ~~(e) an investment falling within this definition by virtue of (a), (b), (c) or (d),~~ ~~or a *warrant*~~
~~*parent undertaking*~~	~~is construed in accordance with section 258 of the *Companies Act* and article 266 of the *1986 Order*~~
~~*parent undertaking solvency calculation*~~	~~the calculation required under rule 10.2(3)(a)~~
~~*participating undertaking*~~	~~an undertaking which holds a *participation* in the undertaking in question~~
~~*participation*~~	~~(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~~
~~*Part II business,* and *Part III business*~~	~~the *insurance business* to which Part II and Part III, respectively, of the *Equalisation Reserves Rules* applies~~
~~*Part II insurer,* and *Part III insurer*~~	~~an *insurer* to which *Part II* and *Part III*, respectively, of the *Equalisation Reserves Rules* applies~~

~~*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 of risk*~~	~~the period for which a *contract of insurance* provides cover~~
~~*permanent health contract*~~	~~a contract falling within *class* IV of *long-term insurance contracts*~~
~~*permitted asset exposure limit*~~	~~has the meaning given in paragraph 2 of **Appendix 4.2**~~
permitted connected property	property of any of the descriptions in paragraphs 1 to ~~8 or~~ 10 of Part I of **Appendix 3.2**, which is not property falling within rule 3.7(3)
~~*permitted counterparty exposure limit*~~	~~has the meaning set out in paragraph 3 of **Appendix 4.2**~~
permitted derivative contract	for the purpose of **Appendix 3.2**, a *derivative* ~~contract~~ or <u>*quasi-derivative*</u> ~~(a) which is 'covered' and~~ ~~(i) which is held in connection with 'property' for the purposes of reduction of investment risk or efficient portfolio management, or~~ ~~(ii) which has the effect of a *permitted derivative contract* held in connection with 'property' for such purposes; and~~ ~~(b) which satisfies the conditions in rules 4.12(6) to (8) except that the references in rule 4.12 to 'an~~

~~asset for the valuation of which provision is made in the *Valuation of Assets Rules*' is construed as a reference to *permitted connected property;*~~

which satisfies the requirements of *PRU* 4.3 with the exception of *PRU* 4.3.18R, as applied in relation to assets covering liabilities in respect of *linked long- term contracts of insurance,* amended as follows:

(a) in *PRU* 4.3.5R and *PRU* 4.3.36R, "For the purpose of *PRU* 2 Ann 1R (Admissible assets in insurance)" is replaced by "For the purposes of *IPRU (INS)* rules 3.6 and 3.7 and Appendix 3.2";

(b) in *PRU* 4.3.6R (2) and (3), *PRU* 4.3.7R (1) and (2), *PRU* 4.3.17R (1) and *PRU* 4.3.36R (1) "*admissible assets*" is replaced by "*permitted connected property*";

(c) *PRU* 4.3.12R (2) and (3) are replaced by:

"(2) (where they are held to cover *index-linked liabilities)* might:

(a) not be appropriate cover for those liabilities as required by *PRU* 4.2.58R; or

(b) fall in value; and

(3) (where they are held to cover *property-linked liabilities)* might:

(a) not be appropriately selected in accordance with contractual and constructive liabilities as required by *PRU* 7.6.36R and appropriate cover for those liabilities as required by *PRU* 4.2.57R; or

	(b) fall in value".
~~*permitted securities*~~	~~*securities* in which cash under the control of or subject to the order of the Supreme Court may be invested pursuant to the relevant rules of court~~
~~*policy*~~	~~(a) in relation to *long-term insurance business* and *industrial assurance business*, includes an instrument evidencing a contract to pay an *annuity upon human life*;~~ ~~(b) in relation to *insurance business* of any other kind, includes any policy under which there is for the time being an existing liability already accrued or under which a liability may accrue; and~~ ~~(c) in relation to capital redemption *insurance business*, includes any policy, bond, certificate, receipt or other instrument evidencing the *contract of insurance* with the *insurer*~~
~~*Policy holder*~~	~~the person who for the time being is the legal holder of the *policy* for securing the contract with the *insurer*, and -~~ ~~(a) in relation to such *long-term insurance business* or *industrial assurance business* as consists in the granting of *annuities upon human life*, includes an annuitant; and~~ ~~(b) in relation to *insurance business* of any other kind, includes a person to whom, under a *policy*, a sum is due or a periodic payment is payable~~
~~*proper valuation*~~	~~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	benefits other than *index linked benefits* provided for under a *linked long-term contract of insurance*.

property linked contract	a *linked long-term contract* <u>*of insurance*</u> conferring *property linked benefits.*
~~*proportional share*~~	~~in relation to a *related undertaking*, the percentage which is the percentage holding (directly or indirectly) in the *related undertaking's* capital~~
~~*pure reinsurer*~~	~~an *insurer* whose *insurance business* is as a matter of fact restricted to effecting or carrying out contracts of *reinsurance*~~
~~*qualified valuer*~~	~~in relation to any particular type of land in any particular area, means –~~ ~~(a) 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 –~~ ~~(i) has knowledge of and experience in the valuation of that particular type of land in that particular area, or~~ ~~(ii) 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; or~~ ~~(b) a person who conforms with (a)(i) or (ii) and immediately before 15 June 1981 was recognised as a qualified valuer by virtue of an approval by the Secretary of State under the Insurance Companies (Valuation of Assets) Regulations 1976 (and for these purposes an approval given under the Insurance Companies (Valuation of Assets) Regulations 1974 is deemed to have been given under the 1976 Regulations)~~
~~*qualifying contract of insurance*~~	~~means a *long-term insurance contract* which is not~~ ~~(a) a *reinsurance contract*; or~~ ~~(b) a contract in respect of which the following~~

	~~conditions are met –~~ ~~(i) the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;~~ ~~(ii) the contract provides that benefits are payable on death (other than death due to an accident) only where the death occurs within ten years of the date on which the life of the person in question was first insured under the contract, or where the death occurs before that person attains a specified age not exceeding seventy years;~~ ~~(iii) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium; and~~ ~~(iv) the contract makes no provision for its conversion or extension in a manner which would result in it ceasing to comply with any of the above conditions~~
readily realisable	in Appendix 3.2, in relation to an investment: (a) an investment which, had negotiations for the assignment or transfer of the investment commenced not more than seven working days before the *relevant date*, it is reasonable to assume could have been assigned or transferred on the *relevant date* for an amount not less than 97.5% of the *market value* to a person other than the *issuer* or an *associate* or *associated company* of the *issuer* or of the *insurer*; or (b) a *listed* investment with respect to which (a) does not apply by reason only that - (i) the listing of the investment has been temporarily suspended following receipt of price sensitive information received by the stock exchange on which the investment is *listed* or the *regulated market* on which facilities for dealing have been granted, or

	(ii) the extent of the holding would prevent an orderly disposal of the investment for an amount equal to or greater than 97.5% of *market value*
~~*recoverable*~~	~~in relation to an *insurer* and a *financial year*, means recorded in the *insurer's* books as due in that year, whether or not the *insurer* has received any payment~~
~~*registered friendly society*~~	~~a society which is –~~ ~~(a) a friendly society within the meaning of section 7(1)(a) of the Friendly Societies Act 1974; and~~ ~~(b) registered within the meaning of that Act~~
~~*registered society*~~	~~a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969~~
~~*Regulated Activities Order*~~	~~Financial Services and Markets Act (Regulated Activities) Order (S.I. 2001 No. 544)~~
~~*regulated activity*~~	~~is construed in accordance with the *Regulated Activities Order*~~
~~*regulated institution*~~	~~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*~~
~~*reinsurance, and reinsurer*~~	~~include retrocession and retrocessionaire respectively~~
~~*related undertaking*~~	~~an undertaking in which a *participation* is held by another undertaking or which is a *subsidiary undertaking*~~

~~*relevant co-insurance operation*~~	~~has the meaning given in **Appendix 5.1**~~
relevant date	in relation to the valuation of any asset or liability, the date at which the value of the asset or liability falls to be determined for the purposes of reporting under the *Accounts and Statements Rules* ~~*any* purpose for which the *Valuation of Assets Rules* apply, the date when the asset falls to be valued for that purpose and in relation to the determination of any liability for any purpose for which the *Determination of Liabilities Rules* apply, the date when the liability falls to be determined for that purpose~~
~~*relevant insurer*~~	~~in relation to a *relevant co-insurance operation*, an *insurer* which is concerned in the operation but is not the *leading insurance undertaking*~~
~~*relevant regulatory requirements*~~	~~(a) in the case of a *group undertaking* that is an *insurance undertaking, ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* established in a *designated state or territory*, at the option of the *insurer*:~~ ~~(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); and~~ ~~(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*~~	~~a *margin of solvency* required by rule 2.1~~
~~*required minimum margin*~~	~~the greater of the appropriate *required margin of solvency* and the amount of the appropriate *guarantee fund*; and~~ ~~'required EEA minimum margin' and 'required United~~

	~~Kingdom minimum margin' are construed accordingly~~
~~*salvage right*~~	~~any right of an *insurer* under a *contract of insurance* to take possession of and to dispose of property by virtue of the fact that the *insurer* has made a payment or has become liable to make a payment in respect of a loss under the contract~~
~~*second calculation*~~	~~is the calculation described in rule 2(5)(1) and 2.5(3) to (6)~~
secured debt	~~(1) a *debt* owed to (or an obligation to be fulfilled for the benefit of) an *insurer* to the extent 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*,~~ ~~where the sum of the aggregate amount available under all letters of credit established for the benefit of the *insurer* with the same *counterparty*, the aggregate amount of all guarantees issued for the benefit of the *insurer* by that *counterparty* and the amount of any *exposure* of the *insurer* 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 the *Valuation of Assets Rules* and -~~ ~~(i) the value of such assets (after deducting reasonable expenses of sale and the amount of any other *debt* or obligation secured by the assets having priority to in 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 *insurer's* *exposure* to assets of the same description does not exceed the *permitted exposure limit* for assets of that description (as calculated under rule 4.14 of **Appendix 4.2**), and~~ ~~(iii) where the assets give rise to *exposure* to a *counterparty*, the exposure of the *insurer* to that *counterparty*, when added to the aggregate amount available under all letters of credit established for the benefit of the *insurer* with that *counterparty*, and to the aggregate amount of all guarantees issued for the benefit of the *insurer* by that *counterparty*, does not exceed the *permitted counterparty exposure limit* for that *counterparty*;~~ ~~(2) for the purpose of (1) -~~ ~~(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 *debts* 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 *debts* 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 *insurer* must be treated as if they were assets of the *insurer*;~~ ~~and unsecured debt is construed accordingly~~

	a debt fully secured on: (a) assets whose value at least equals the amount of debt; or (b) a letter of credit or guarantee from an *approved counterparty*.
~~*settlement date*~~	~~any date on which the fulfilment of an obligation under a *derivative contract* is or may be required~~
share	has the meaning given in ~~the *Companies Act* or the *1986 Order*~~ Part VII of the Companies Act or Part VIII of the Companies (Northern Ireland) Order 1986
~~*shareholder controller*~~	~~see rule 11.2 for *controller*~~
~~*short term deposit*~~	~~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~~
~~*Society*~~	~~the society incorporated by Lloyd's Act 1871 by the name of Lloyd's~~
~~*solvency deficit*~~	~~deficit in the assets available to cover the undertaking's liabilities and represent its *notional required minimum margin* (if any)~~
~~*subordinated debt*~~	~~any *debt* which, on a winding up of the debtor, ranks for payment after the claims of general creditors and is not to be repaid until the claims of all the general creditors outstanding at the time have been settled~~
~~*subsidiary*~~	~~is construed in accordance with section 736 of the *Companies Act* or Article 4 of the *1986 Order*~~
~~*SUP*~~	~~Supervision manual~~
~~*surplus assets*~~	~~has the meaning given in rule 4.2(2)~~
~~*Swiss general insurer*~~	~~a *non-EEA insurer* which has its head office in Switzerland and which has permission under the *Act* to effect or carry out *general insurance contracts* in~~

	~~accordance with the Swiss Treaty Agreement of 10 October 1989~~
~~*Third Life Directive*~~	~~Council Directive of 10 November 1992 on the co-ordination of laws, etc and amending Directives 79/267/EEC and 90/619/EEC (92/96/EEC)~~
~~*Third Non-Life Directive*~~	~~Council Directive of 18 June 1992 on the co-ordination of laws, etc, and amending Directives 73/239/EEC and 88/357/EEC (92/49/EEC)~~
total capital resources	the sum calculated at stage O of the calculation in *PRU* 2.2.14R
~~*ultimate EEA insurance parent undertaking*~~	~~an *EEA insurance parent undertaking* that is not itself the *subsidiary undertaking* of *another EEA insurance parent undertaking*~~
~~*ultimate insurance parent undertaking*~~	~~an *insurance parent undertaking* that is not itself the *subsidiary undertaking* of another *insurance parent undertaking*~~
~~*UCITS*~~	~~is an undertaking for collective investments in transferable *securities*~~
~~*UCITS Directive*~~	~~Council Directive 85/611/EEC of 20 December l985 on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investments in transferable *securities*~~
~~*UK-deposit insurer*~~	~~a *non-EEA insurer* which has made a *deposit* in the United Kingdom in accordance with rule 8.1~~
~~*UK insurer*~~	~~an *insurer*, other than a *pure reinsurer* or a *non-directive insurer*, whose head office is in the United Kingdom~~
~~*UK margin of solvency*~~	~~an *insurer's margin of solvency* computed by reference to the assets and liabilities of the business carried on by that *insurer* in the United Kingdom under rule 2.4~~
~~*Unsecured debt*~~	~~see *secured debt*~~
~~*used notional group solvency margin*~~	~~in relation to an *ultimate insurance parent undertaking* or an *ultimate EEA insurance parent undertaking,* the sum of:~~ ~~(a) in the case of a parent which is itself an *insurance*~~

	~~*undertaking*:~~ ~~(i) all liabilities in respect of cumulative preference *shares* left out of account by it in accordance with rule 2.10(3), and~~ ~~(ii) all liabilities in respect of *subordinated debt* left out of account by it in accordance with a direction under section 148 of the *Act*,~~ ~~or, in either case, in accordance with the *relevant regulatory requirements* of the state or territory where the head office of the parent is situated, as the case may be;~~ ~~(b) the parent's *proportional shares* of all liabilities in respect of cumulative preferences *shares* left out of account by its *related insurance undertakings* in accordance with rule 2.10(3) or the *relevant regulatory requirements* of the state or territory where the head office of the relevant *insurance undertaking* is situated, as the case may be; and~~ ~~(c) the parent's *proportional shares* of all liabilities in respect of *subordinated debt* left out of account by its *related insurance undertakings* in accordance with a direction under section 148 of the *Act* or the *relevant regulatory requirements* in the state or territory where the head office of the relevant *insurance undertaking* is situated, as the case may be~~
~~*Valuation of Assets Rules*~~	~~the rules in Chapter 4~~
~~*Warrant*~~	~~an instrument which falls within article 79 of the *Regulated Activities Order*~~

~~*zillmerising*~~	~~in relation to the *Margins of Solvency Rules*, 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~~

…

PART 2

GENERAL PROVISIONS

Powers under which the rules are made

…

Use of definitions

11.5 A word <u>or phrase</u> which is printed in italics is used in the defined sense. <u>Where a word or phrase is printed in italics and is not given a meaning in Part 1 of Chapter 11, that word or phrase has the meaning given to it in the *Glossary*.</u>

…

Chapter 12

TRANSITIONAL ARRANGEMENTS

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)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional Provision: Dates in force	(6) Handbook provision: coming into force
1	*IPRU (INS) rules* 3.7 and 11.1 (Definitions), Appendix 3.2 paragraph 9	R	For the period specified in column (5), for the purposes of the *rules* specified in column (2), an *insurer* must apply the definition of *permitted derivative contract* as it had effect immediately prior to the date specified in column (6)	From 31 December 2004 to 30 December 2005	31 December 2004
2	*IPRU(INS)* rules 3.7 and 11.1 (Definitions), Appendix 3.2 paragraph 9	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 had effect immediately prior to the date specified in column (6). (2) In relation to a contract to which this paragraph applies, for the purposes of the rules specified in	From 31 December 2004 until the relevant *rule* is revoked	31 December 2004

			column (2), an *insurer* may continue to apply the definition of *permitted derivative contract* as it had effect immediately prior to the date specified in column (6)		
3	*IPRU(INS)* rules 9.3A (1), 9.3A (2), 9.12 (2), 9.12(2A), 9.12(3), 9.12(9), Forms 1, 2, 3, 18 and 19	R	In relation to its *financial year* ending on or before 30 December 2005, an *insurer* is not required to complete column 2 ("As at end of the previous year") of Forms 1, 2, 3, 18 and 19	From 31 December 2004 to 30 December 2005	31 December 2004
4	*IPRU(INS),* Volume 1, Ch. 9 Part I, rules 9.5 and 9.35	R	In respect of the report annexed pursuant to *IPRU(INS)* rule 9.31(a) to the *return* for an *insurer*'s *financial year* ending on or before 30 December 2005, the scope of the audit required by *IPRU(INS)* Volume 1, Ch.9 rules 9.5 and 9.35 is limited to audit of: (a) Forms 48, 49, 56, 58 and 60; and	From 31 December 2004 to 30 December 2005	31 December 2004

			(b) the methods and assumptions determined by the *insurer* and used to perform the *actuarial investigation*.		
5	*IPRU (INS)*, Volume 2, Appendix 9.6 Part II, paragraph 4	R	In respect of the report annexed pursuant to *IPRU(INS)* rule 9.31(a) to the *return* for an *insurer*'s *financial year* ending on or before 30 December 2005, the audit opinion required by *IPRU(INS)* rule 9.5 and 9.35 is limited to the statement whether, in the auditor's opinion,: (a) Forms 48, 49, 56, 58 and 60 have been properly prepared in accordance with the *Accounts and Statements Rules* and	From 31 December 2004 to 30 December 2005	31 December 2004

			PRU; and (b) the methods and assumptions determined by the *insurer* and used to perform the *actuarial investigation* appropriately reflect the requirements of *PRU* 7.3.		
7	*IPRU(INS) rules* 9.5 and 9.35, Appendix 9.4A, paragraphs 4(2), 4(6), 6(3) and 13	R	In respect of the valuation report annexed to the *return* for an *insurer's financial year* ending on or before 30 December 2005 pursuant to *IPRU(INS) rule* 9.31(b), the scope of the audit required by *IPRU(INS) rules* 9.5 and 9.35 does not include: (a) the omitted information (as defined in *IPRU(INS)* TR 6); or (b) the information required by paragraph 4(6) of Appendix 9.4A to *IPRU(INS)*.	From 31 December 2004 to 30 December 2005	31 December 2004
8	*IPRU (INS)* Chapter 9 and Appendices 9.1 to	R	In relation to an *insurer's financial year* ending on or before 30 December 2004, the	From 31 December 2004 to 30	31 December

	9.9		*insurer* must comply with *IPRU(INS)* Chapter 9 and Appendices 9.1 to 9.9 as if the Integrated Prudential Sourcebook (Insurers and Other Amendments) (Consequential Amendments) Instrument 2004 had not been made.	April 2005	2004
9	*IPRU (INS)* Chapter 9, 9.40 to 9.43 and Appendix 9.9	R	In relation to an *insurer's financial year* ending on or before 30 December 2004, the *insurer* must comply with *IPRU(INS)* Chapter 10 (Parent undertaking solvency calculation) as it was in force on 30 December 2004, as if the Integrated Prudential Sourcebook (Insurers and Other Amendments) (Consequential Amendments) Instrument 2004 had not been made.	From 31 December 2004 to 30 June 2005	31 December 2004

Part 2: Amendments to Volume 2

In this part underlining indicates new text and striking through indicates deleted text. Where existing text is replaced by new text or entirely new text is added, this is indicated and the new text is not underlined. Where an entire section of text is deleted the place where the change is made is indicated and the text is not struck through.

INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

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Appendix 2.1	General insurance business solvency margin: first method of calculation (premium basis) (rule 2.4(1)(b))
Appendix 2.2	General insurance business solvency margin: second method of calculation (claims basis) (rule 2.4(1)(b))
Appendix 2.3	Minimum guarantee fund (rule 2.9)
Appendix 4.2	Assets to be taken in to account only to a specified extent (rule 4.14)
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Appendix 6.1	Methods of calculating the equalisation reserve (rule 6.7)
Appendix 6.2	Method of calculating the equalisation reserve for credit insurance business (rule 6.12)

Appendix 2.1 [deleted]

Appendix 2.2 [deleted]

Appendix 2.3 [deleted]

…

APPENDIX 3.2 (rule 3.7)

PERMITTED LINKS

PART I

DESCRIPTIONS OF PROPERTY BY WHICH BENEFITS MAY BE DETERMINED~~[1]~~
APPENDIX 3.2 (rule 3.7)

…

PART II

INDICES BY REFERENCE TO WHICH BENEFITS MAY BE DETERMINED~~[2]~~

…

Appendix 4.2 [deleted]

Appendix 5.1 [deleted]

Appendix 6.1 [deleted]

Appendix 6.2 [deleted]

~~[1] See **Guidance Note 4.1** and **Guidance Note 9.1**~~
~~[2] See **Guidance Note 4.1** and **Guidance Note 9.1**~~

APPENDIX 9.1 (rules 9.12 and 9.13)

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
(FORMS 1 TO 3 AND 10~~9~~ TO 1~~7~~9)

Introduction

1. (1) All the forms included in the part of the *return* to which this Appendix relates (**Forms 1 to 3 and 10~~9~~** to **1~~7~~9**) are to be laid out as shown in this Appendix, except that the instructions for the completion of the forms need not be reproduced.

…

5 …

(2) The bases of conversion adopted must be stated by way of supplementary note (code 1601) to **Form 16** or, if there is no Form 16, by way of supplementary note (code 4005) to **Form 40**.

…

8. (3) If amounts shown include amounts calculated on the basis set out in (2), a supplementary note to **Form 13** (code 1304 for other than *long-term insurance business* and code 1310 for *long-term insurance business*) to that effect must be provided.

…

Premiums

10. (1) Notwithstanding the requirements of the *insurance accounts rules*, 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 ~~**Appendices 2.1 to 2.3**~~ *PRU* 7.2.66R and *PRU* 7.2.71R.

. . .

Counterparty exposure

11. (1) There must be given by way of a supplementary note to **Form 13** (code 1305 for other than *long-term insurance business* and code 1311 for *long-term insurance business*) -

. . .

(2) In each case where the *exposure* of the *insurer* to a *counterparty* at the end of the *financial year in question* exceeds:

(a) 5% of the sum of its *base capital resources requirement* and its *long-term insurance* ~~*business amount*~~ *liabilities*, excluding *property linked liabilities* and net of *reinsurance ceded*, or

(b) the sum of 20,000 Euro and 5% of its liabilities arising from its *general insurance business* ~~*amount*~~, net of *reinsurance ceded*,,

as appropriate -

(a) the amount of that *exposure*; and

(b) the nature of the assets held which give rise to that *exposure*,

must be stated by way of a supplementary note to **Form 13** (code 1306 for other than *long-term insurance business* and code 1312 for *long-term insurance business*).

(3) There must be stated by way of supplementary note to **Form 13** (code 1307 for other than *long-term insurance business* and code 1313 for *long-term insurance business*) the aggregate value of any rights to which *PRU* 3.2.35R or *PRU* 3.2.36R and *PRU* 3.2.37R relates ~~paragraph 14 of Part I of **Appendix 4.2**~~.

Provision for ~~adverse changes~~ reasonably foreseeable adverse variations

12. There must be stated by way of supplementary note to **Form 14** (code 1401) or **15** (code 1501) the methods and assumptions used to determine the amount of any adjustment or provision made pursuant to *PRU* 1.3.26R to *PRU* 1.3.29R or *PRU* 4.3.17R to *PRU* 4.3.18R ~~rule 5.3~~ or, if there is no such adjustment or provision, the methods and assumptions used to determine that no adjustment or provision is required.

Liabilities

13. (1) Subject to (3), the following information must be given by way of a supplementary note to **Form 14** (code 1402) or **15** (code 1502) –

. . .

. . .

(3) (1)(a) and (c) may be disregarded by an *insurer* in the case of -

(a) one or more ‘charges’ over assets which are attributable to either the *long-term* *insurance assets* or the 'other ~~*general insurance business*~~ assets' and whose aggregate value (as shown on **Form 13**) does not exceed 2.5% of the *long-term insurance assets* (other than *reinsurance recoveries* and assets required to match *property linked liabilities*) or the 'other assets' (other than *reinsurance recoveries*) ~~or general *insurance business amount*~~, as the case may be; or

(b) one or more contingent liabilities whose aggregate value does not exceed 2.5% of the *long-term* *insurance assets* (other than *reinsurance recoveries* and assets required to match *property linked liabilities*) or the 'other assets' (other than *reinsurance recoveries*) ~~or *general insurance business amount*~~, as the case may be.

(4) (1)(d) may be disregarded by an *insurer* 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* *insurance assets* (other than *reinsurance recoveries* and assets required to match *property linked liabilities*) or the 'other assets' (other than *reinsurance recoveries*) ~~or *general insurance business amount*~~, as the case may be.

(5) For the purposes of this paragraph, **charge** includes 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 the *insurer*, and **other assets** means assets that are not *long-term insurance assets*.

Reconciliation

14. (1) ~~For an *insurer* (other than a *company* incorporated outside the United Kingdom) an explanation must be given by way of supplementary note to **Form 10** reconciling -~~

~~(a) line 99 of **Form 13** (category of assets ‘1’) less line 59 of **Form 15**; and~~

~~(b) the amount shown under balance sheet item A ‘capital and reserves’ in the *insurer’s* accounts prepared pursuant to the insurance accounts rules for the financial year in question.~~

~~(2) Where for an *insurer* (other than a *company* incorporated outside the United Kingdom) there are no accounts pursuant to 1(b) (or the accounts have not yet been prepared), this must be stated by way of supplementary note to **Form 10**.~~

A reconciliation of the *capital resources* of the *insurer* to the net *admissible assets* of the *insurer* must be provided in accordance with instruction 66 to **Form 3**.

. . .

16 Where, in respect of any *derivative contract* included in **Form 17**, assets have been transferred to or for the benefit of the *insurer* by way of *variation margin* there must be stated by way of supplementary note (code 1701) to **Form 17** –

. . .

17 If –

. . .

the corresponding value, if not zero, must be stated (by way of supplementary note (code 1702) to **Form 17**) for each line in **Forms 13**, **14** or **15** and paragraph 16 applies to the insurer as if such assets had been included in **Form 17**.

FORMS

[**Forms 1-3 and 10-1~~7~~9** to follow]

Forms 1, 2 and 3 of Appendix 9.1 (Balance sheet and profit and loss account) are inserted as follows:

Form 1

Statement of solvency – general insurance business

Name of insurer
Global business/UK branch business/EEA branch
Financial year ended
Solo solvency calculation / Group solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	units
R1						£000

		As at end of this financial year 1	As at end of the previous year 2
Capital resources			
Capital resources arising outside the long-term insurance fund	11		
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12		
Capital resources available to cover general insurance business capital resources requirement (11-12)	13		
Guarantee fund			
Guarantee fund requirement	21		
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22		
Minimum capital requirement (MCR)			
General insurance capital requirement	31		
Base capital resources requirement	33		
Minimum capital requirement	34		
Excess (deficiency) of available capital resources to cover 50% of MCR	35		
Excess (deficiency) of available capital resources to cover 75% of MCR	36		
Capital resources requirement (CRR)			
Capital resources requirement	41		
Excess (deficiency) of available capital resources to cover general insurance business CRR (13-41)	42		
Contingent liabilities			
Quantifiable contingent liabilities in respect of other than long-term insurance business as shown in a supplementary note to Form 15	51		

Instructions for completion of Form 1

1. An *insurer* (other than a *Swiss general insurer* or an *EEA-deposit insurer*) carrying on *general insurance business* must complete Form 1 in respect of its entire *general insurance business*. An *external insurer* (other than a *pure reinsurer*) that is carrying on *general insurance business* must complete Form 1 in respect of business carried on through a *branch* in the *United Kingdom*. An *UK-deposit insurer* that is carrying on *general insurance business* must complete Form 1 in respect of business carried on through its *branches* in *EEA States* taken together. Form 1 is not required for *Swiss general insurers* or *EEA-deposit insurers*.

2. In the case of a *marine mutual* completing an abbreviated *return* under rule 9.36A, units must be the same as those used in Form M1.

3. For *financial years* commencing on or before 31 December 2004 lines 11 to 42, column 2 must be blank.

4. The entry at line 13 must be equal to the *total capital resources* after deductions at line 79, column 1 on Form 3. The entry at line 11 includes also *capital resources* allocated towards the *long-term insurance business* (and included in column 2 on Form 3) that arise outside the *long-term insurance fund*. For a *branch* the entry at line 11 is equal to Form 10 line 29.

5. For a *firm* carrying on *long-term insurance business* the entry at line 12 on Form 1 must equal the entry at line 12 on Form 2. For a *firm* not carrying on *long-term insurance business* the entry at line 12 on Form 1 is nil.

Instructions 6-12 only apply to firms that do not meet the conditions specified in *PRU* 2.1.9R(2), i.e. that are not required to perform an adjusted solo calculation under *PRU* 8.3.

6. The g*uarantee fund* requirement at line 21 is calculated by reference to *PRU* 2.2.18R as the higher of line 33 and 1/3 of line 31.

7. The excess (deficiency) of available *capital resources* to cover the *guarantee fund* requirement at line 22 is equal to line 81 on Form 3 less line 21. For a *branch* this is equal to line 13 less line 21 less an adjustment because assets held to cover the *guarantee fund* must be held in the *United Kingdom* (or for *UK-deposit insurer*s, in the *EEA States* where the *firm* carries on *insurance business*); the adjustment is the difference between form 13 line 89 for categories 4 and 3 (or 5), except for *branches* carrying on both *long-term insurance business* and *general insurance business* (composite *branches)*; composite *branches* will need to state how the difference is allocated between *general insurance business* and *long-term insurance business* in a note to the Form.

8. The *general insurance capital requirement* at line 31 must be equal to the amount shown at line 43 of Form 12, which is calculated in accordance with *PRU* 2.1.30R.

9. The *base capital resources requirement* at line 33 must be taken from *PRU* 2.1.26R.

10. The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 35 is equal to line 82, column 1 on Form 3 less 50% of line 34. For a *branch,* line 35 is to be left blank.

11. The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 36 is equal to line 83, column 1 on Form 3 less 75% of line 34. For a *branch,* line 36 is to be left blank.

12. The *capital resources requirement* at line 41 is calculated in accordance with *PRU* 2.1.14R and is equal to line 34.

Instructions 13-20 only apply to firms that meet the conditions specified in *PRU* 2.1.9 R(2), i.e. that perform the adjusted solo solvency calculation in accordance with *PRU* 8.3.

13. The *guarantee fund* requirement at line 21 is calculated as the share of the *general insurance business*

of $\frac{1}{3}X + (R – S – U – X)$ by reference to *PRU* 8.3.45R.

14. The excess (deficiency) of available *capital resources* to cover the *guarantee fund* requirement at line 22 is equal to line 81, column 1 on Form 3 less line 21.

15. Line 31 is not applicable.

16. Line 33 is not applicable.

17. The entry at line 34 must equal the amount represented by (R-S) with reference to *PRU* 8.3.45R in relation to the *general insurance business*.

18. The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 35 is equal to line 82, column 1 on Form 3 less 50% of line 34.

19. The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 36 is equal to line 83, column 1 on Form 3 less 75% of line 34.

20. The entry at line 41 must equal the amount represented by R with reference to *PRU* 8.3.45R in relation to the *general insurance business*.

Instructions 21 onwards apply to all firms

21. The entry at line 51 must not include provision for any liability to tax on capital gains referred to in paragraph 13(1)(b) of Appendix 9.1. Amounts in *related undertakings* must not be included.

22. Where a direction under section 148 of the *Act* has been issued disapplying or modifying any of the provisions of the *Accounts and Statements Rules*, a note to **Form 1** explaining the effect of the order is usually required. The requirement for such a note would be specified in the direction itself. [Code 0101].

Form 2

Statement of solvency – long-term insurance business

Name of insurer
Global business/UK branch business/EEA branch
Financial year ended
Solo solvency calculation / Group solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	units
R2						£000

		As at end of this financial year 1	As at end of the previous year 2
Capital resources			
Capital resources arising within the long-term insurance fund	11		
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12		
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13		
Guarantee fund			
Guarantee fund requirement	21		
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22		
Minimum capital requirement (MCR)			
Long-term insurance capital requirement	31		
Resilience capital requirement	32		
Base capital resources requirement	33		
Minimum capital requirement	34		
Excess (deficiency) of available capital resources to cover 50% of MCR	35		
Excess (deficiency) of available capital resources to cover 75% of MCR	36		
Enhanced capital requirement			
With-profits insurance capital component	37		
Enhanced capital requirement	38		
Capital resources requirement (CRR)			
Capital resources requirement (greater of 34 and 38)	41		
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42		
Contingent liabilities			
Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		

Instructions for completion of Form 2

1. An *insurer* (other than an *EEA-deposit insurer*) carrying on *long-term insurance business* must complete Form 2 in respect of its entire *long-term insurance business*. An *external insurer* (other than a *pure reinsurer*) or *EEA-deposit insurer* that is carrying on *long-term insurance business* must complete Form 2 in respect of business carried on through a *branch* in the *United Kingdom*. An *UK-deposit insurer* that is carrying on *long-term insurance business* must complete Form 2 in respect of business carried on through its *branches* in *EEA States* taken together.

2. The entry at line 13 must be equal to the *total capital resources* after deductions at line 79, column 2 on Form 3. The entry at line 11 represents items relating to the *long-term insurance fund*, and that at line 12 represents amounts arising outside the *long-term insurance fund.* For a *branch*, line 11 is equal to the sum of any *implicit items* plus form 10 line 11 less the sum of lines 11, 12 and 49 in Form 14: when there are implicit items it would be appropriate for note 0202 (see instruction 26) to include an analysis of line 11; if the *insurer* is not carrying on *general insurance business* through the *branch*, line 12 will be equal to Form 10 line 29.

3. For *financial years* commencing on or before 31 December 2004 lines 11 to 42, column 2 must be blank.

4. For *EEA-deposit insurers*, lines 21 to 42 must be blank.

Instructions 5-14 only apply to firms that do not meet the conditions specified in PRU 2.1.9 R(2), i.e. that are not required to perform an adjusted solo calculation under PRU 8.3.

5. The g*uarantee fund* requirement at line 21 is calculated by reference to *PRU* 2.2.17R as the higher of line 33 and 1/3 of line 31.

6. The excess (deficiency) of available *capital resources* to cover the *guarantee fund* requirement at line 22 is equal to line 81, column 2 on Form 3 less line 21. For a *branch* this is equal to line 13 less line 21 less an adjustment because assets held to cover the *guarantee fund* must be held in the *United Kingdom* (or for *UK-deposit insurers*, in the *EEA States* where the *firm* carries on *insurance business*) and cannot include *implicit items*; an analysis would be appropriate in a note (code 0203) to the Form.

7. The *long-term insurance capital requirement* at line 31 must be equal to the amount shown at line 51 of Form 60, which is calculated in accordance with *PRU* 2.1.32R.

8. The *resilience capital requirement* at line 32 is calculated in accordance with the *rules* in *PRU* 4.2.

9. The *base capital resources requirement* at line 33 must be taken from *PRU* 2.1.26R.

10. The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 35 is equal to line 82, column 2 on Form 3 less 50% of line 34. For a *branch,* line 35 must be blank.

11. The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 36 is equal to line 83, column 2 on Form 3 less 75% of line 34. For a *branch,* line 36 must be blank.

12. The *with-profits insurance capital component* at line 37 must be the total of the amounts shown at line 64 on Forms 18, calculated in accordance with the *rules* in *PRU* 7.4.

13. The *enhanced capital requirement* at line 38 is calculated as the sum of lines 31, 32 and 37.

14. The *capital resources requirement* at line 41 is calculated in accordance with *PRU* 2.1.15R.

Instructions 15-23 only apply to firms that meet the conditions specified in PRU 2.1.9R(2), i.e. that perform the adjusted solo solvency calculation in accordance with PRU 8.3.

15. The g*uarantee fund* requirement at line 21 is calculated as the share of the *long-term insurance*

business of ⅓X + (R – S – U – X) by reference to *PRU* 8.3.45R.

16. The excess (deficiency) of available *capital resources* to cover the *guarantee fund* requirement at line 22 is equal to line 81, column 2 on Form 3 less line 21.

17. Lines 31, 32 and 33 are not applicable.

18. The entry at line 34 must include the amount represented by (R-S) with reference to *PRU* 8.3.45R in relation to the *long-term insurance business*.

19. The excess (deficiency) of available *capital resources* to cover 50% of the *minimum capital requirement* at line 35 is equal to line 82, column 2 on Form 3 less 50% of line 34.

20. The excess (deficiency) of available *capital resources* to cover 75% of the *minimum capital requirement* at line 36 is equal to line 83, column 2 on Form 3 less 75% of line 34.

21. The *with-profits insurance capital component* at line 37 must be the total of 'S' with reference to *PRU* 8.3.45R.

22. The entry at line 38 must be the sum of lines 34 and 37.

23. The entry at line 41 must equal the amount represented by R with reference to *PRU* 8.3.45R in relation to the *long-term insurance business*.

Instructions 24 onwards apply to all firms

24. The entry at line 51 must not include provision for any liability to tax on capital gains referred to in paragraph 13(1)(b) of Appendix 9.1. Amounts in *related undertakings* must not be included.

25. Where a direction under section 148 of the *Act* has been issued disapplying or modifying any of the provisions of the *Accounts and Statements Rules*, a note to **Form 2** explaining the effect of the direction is usually required. The requirement for such a note would be specified in the direction itself. (Code 0201).

26. Where a direction under section 148 of the *Act* has been issued to an *insurer* permitting it to take into account *implicit items* on *long-term insurance business*, that direction may specify that a note is to be included in the *return* explaining such items. That note should be included as a note to **Form 2**. (Code 0202).

Form 3
(Sheet 1)

Components of capital resources

Name of insurer
Global business
Financial year ended

	Company registration number	GL/ UK/ CM	day	month	year	units
R3						£000

		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
		1	**2**	**3**	**4**
Core tier one capital					
Permanent share capital	11				
Profit and loss account and other reserves	12				
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19				
Tier one waivers					
Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21				
Implicit items	22				
Tier one waivers in related undertakings	23				
Total tier one waivers as restricted (21+22+23)	24				
Other tier one					
Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				
Total tier one capital before deductions (19+24+25+26+27+28)	31				
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				
Total tier one capital after deductions (31-37)	39				

Form 3
(Sheet 2)

Components of capital resources

Name of insurer
Global business
Financial year ended

	Company registration number	GL/ UK/ CM	day	month	year	units
R3						£000

		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
		1	2	3	4
Tier two capital					
Implicit items, (tier two waivers and amounts excluded from line 22)	41				
Perpetual non-cumulative preference shares excluded from line 25	42				
Innovative tier one capital excluded from line 27	43				
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	44				
Perpetual cumulative preference shares	45				
Perpetual subordinated debt and securities	46				
Upper tier two capital in related undertakings	47				
Upper tier two capital (44 to 47)	49				
Fixed term preference shares	51				
Other tier two instruments	52				
Lower tier two capital in related undertakings	53				
Lower tier two capital (51+52+53)	59				
Total tier two capital before restrictions (49+59)	61				
Excess tier two capital	62				
Further excess lower tier two capital	63				
Total tier two capital after restrictions, before deductions (61-62-63)	69				

Components of capital resources **Form 3 (Sheet 3)**

Name of insurer
Global business
Financial year ended

	Company registration number	GL/ UK/ CM	day	month	year	units
R3						£000

		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
		1	2	3	4

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71				
Total capital resources before deductions (39+69+71)	72				
Inadmissible assets other than intangibles and own shares	73				
Assets in excess of market risk and counterparty limits	74				
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Total deductions of ineligible surplus	77				
Total capital resources after deductions (72-73-74-75-76-77)	79				

Available capital resources for PRU tests

Available capital resources for guarantee fund requirement	81				
Available capital resources for 50% MCR requirement	82				
Available capital resources for 75% MCR requirement	83				

Financial engineering adjustments

Implicit items	91				
Financial reinsurance – ceded	92				
Financial reinsurance – accepted	93				
Outstanding contingent loans	94				
Any other charges on future profits	95				
Sum of financial engineering adjustments (91+92-93+94+95)	96				

Instructions for completion of Form 3

1. An *insurer* (other than a *Swiss general insurer* or an *EEA-deposit insurer*) must complete Form 3 in respect of its entire business. An *external insurer* (other than a *pure reinsurer*), an *EEA-deposit insurer* or a *Swiss general insurer* must complete Form 10 in respect of business carried on through a *branch* in the *United Kingdom*. An *UK-deposit insurer* must complete Form 10 in respect of business carried on through its *branches* in *EEA States* taken together.

2. An *insurer* that is carrying on *long-term insurance business*, other than a *mutual* not carrying on *general insurance business*, that includes within its *capital resources* any capital instruments issued by its *long-term insurance fund*, must include a supplementary note (code 0302) analysing those instruments.

3. In the case of a *marine mutual* completing an abbreviated *return* under rule 9.36A, units must be the same as those used in Form M1. If units are in US$ or US$000, then the bases of conversion used in determining the *base capital resources requirement* must be those used in Forms 11 and 12.

4. Amounts in columns 1 and 2 refer to capital supporting the *general insurance business* and the *long-term insurance business* respectively. For a *firm* carrying on only *general insurance business* column 2 should be blank. For a *firm* carrying on only *long-term insurance business* column 1 should be blank. All items relating to the *long-term insurance fund* should be included in column 2. For a *composite firm* capital items arising outside the *long-term insurance fund* should be allocated between *general insurance business* and *long-term insurance business* in a manner consistent with the *firm*'s view of what business that capital supports. Where there is a material change in way capital items are allocated from one year to the next, the *firm* should explain the change in a supplementary note (code 0303).

5. Column 3 is the sum of columns 1 and 2.

6. For *financial years* commencing on or before 31 December 2004 column 4 must be blank.

7. Amounts at lines 11-13 should be taken from the *firm*'s stand-alone accounts prepared under the Companies Act 1985 or (for *firm*s not preparing accounts under the Companies Act) equivalent overseas legislation or the applicable UK legislation.

8. The entry at line 15.2 must be the FFA taken from the *firm*'s stand-alone accounts prepared under the Companies Act 1985 or (for *firm*s not preparing accounts under the Companies Act) equivalent overseas legislation or the applicable *United Kingdom* legislation. The entry at line 15 column 1 must be blank.

9 *PRU* 2.2.78R and 2.2.79G explain how to calculate the valuation differences for inclusion at line 14 or 35. Inadmissible assets or assets in excess of *market risk* and *counterparty* limits are not be included in the valuation differences. Net valuation differences are shown at line 14 if positive or in line 35 if negative. The *firm* must state in a supplementary note (code 0308) to this form -

   (a) The amount of positive valuation differences included within line 14 or 35 in respect of assets where valuation in *PRU* exceeds the valuation that the *firm* uses for external financial reporting purposes, together with a brief explanation indicating the nature of those assets;

   (b) The amount of positive valuation differences included within line 14 or 35 in respect of liabilities where valuation in *PRU* is lower than the valuation that the *firm* uses for external financial reporting purposes, together with a brief explanation indicating the nature of those liabilities;

   (c) The amount of negative valuation included within line 14 or 35 in respect of assets where valuation in *PRU* is lower than the valuation that the *firm* uses for external financial reporting purposes (excluding inadmissible assets and assets in excess of *market risk* and *counterparty* limits), together with a brief explanation indicating the nature of those assets; and

   (d) The amount of negative valuation included within line 14 or 35 in respect of liabilities where valuation in *PRU* exceeds the valuation that the *firm* uses for external financial reporting purposes (excluding amounts deducted from *technical provisions* for discounting shown at line 34), together with a brief explanation indicating the nature of those liabilities.

The amount in (a) plus the amount in (b) less the amount in (c) less the amount in (d) should equal the amount shown at line 14 if positive or at line 35 if negative."

Instructions 10-32 only apply to firms that do not meet the conditions specified in *PRU* 2.1.9R(2), i.e. that are not required to perform an adjusted solo calculation under *PRU* 8.3.

10. The entries at line 16 must be nil.

11. Amounts may only appear in lines 21 and 22 if the *FSA* has issued a *waiver* permitting these amounts to count as *tier one capital* (tier one waivers). These amounts are restricted by *PRU* 2.2.20R (1), so that amounts in line 24 may not be greater than corresponding amounts in line 19. If the *FSA* has issued a *waiver* permitting amounts to count as *tier two capital* (tier two waivers), these are to be included at line 41, together with any amounts that arise from the restriction at *PRU* 2.2.20R(1).

12. The entries at line 23 must be nil.

13. The entries at lines 25 and 27 must be restricted to comply with *PRU* 2.2.20R, so that the total of the amounts in lines 24, 25 and 27 is not greater than the amount in line 19 and the amount in line 27 is not greater than 15/85 of the total of the amounts in lines 19, 24 and 25. Amounts in excess of the limits are entered at lines 42 and 43 respectively.

14. The entries at lines 26 and 28 must be nil.

15. The entries at line 32 for investments in own *shares* should, in the majority of cases, be zero.

16. For the purpose of completing line 33, the *firm* should refer to *PRU* 2.2.84R and *PRU* 2.2.85G.

17. The amounts in line 34 must be calculated in accordance with *PRU* 2.2.80R and *PRU* 2.2.81R.

18. The entries at line 36 must be nil.

19. The entries at lines 45 and 46 for perpetual cumulative *preference shares*, *subordinated debt* and *securities* must be the total, unrestricted, amounts that the *firm* can include in *upper tier two capital* in accordance with *PRU* 2.2.100G to *PRU* 2.2.106G.

20. The entries at line 47 must be nil.

21. The types of capital instrument that a *firm* can include within its *lower tier two capital* are set out at *PRU* 2.2.107G to *PRU* 2.2.115G. These should be split between fixed term *preference shares* and other *tier two instruments* and entered at lines 51 and 52 respectively.

22. The entries at line 53 must be nil.

23. The effect of the restrictions at *PRU* 2.2.23R applying to *tier two capital* are shown at lines 62 and 63. Line 62 relates to *tier two capital* as a whole and equals the excess (if any) of line 61 over line 39. Line 63 relates to *lower tier two capital* and equals the excess (if any) of line 59 over the sum of line 62 and 1/2 line 39.

24. Line 71 must show positive adjustments for *related undertakings* that are *regulated related undertakings* (other than *insurance undertakings*) required by *PRU* 2.2.90R.

25. Line 73 must show the deductions for assets that are not *admissible assets* required by *PRU* 2.2.86R.

26. Line 74 must show the assets in excess of *market risk* and *counterparty* limits in *PRU* 3.2.22R.

27. Line 75 must show negative adjustments for *related undertakings* that are *ancillary services*

undertakings required by *PRU* 2.2.89R.

28. Line 76 must show negative adjustments for *related undertakings* that are *regulated related undertakings* (other than *insurance undertakings*) required by *PRU* 2.2.90R.

29. The entries at line 77 must be nil.

30. The entry at line 81 is determined as the amount of the *firm*'s *capital resources* available to meet its *guarantee fund* requirement, having regard to *PRU* 2.2.17R and *PRU* 2.2.18R. Line 81 must be either:
    - line 79; or
    - (if less) the sum of lines 19, 25, 42, 45, 46 and 59 less the sum of lines 37, 62 and 63.

31. The entry at line 82 is determined as the amount of the *firm*'s *capital resources* available to meet 50% of its *minimum capital requirement*, having regard to *PRU* 2.2.16R. Line 82 must be either:
    - line 79; or
    - (if less) the sum of lines 19, 24, 25 and 42 less line 37.

32. The entry at line 83 is determined as the amount of the *firm*'s *capital resources* available to meet 75% of its *minimum capital requirement*, having regard to *PRU* 2.2.24R. Line 83 must be either:
    - line 79; or
    - (if less) the sum of lines 19, 24, 25, 41, 42, 45 and 46 less the sum of line 37 and any excess of line 62 over line 59.

Instructions 33-57 only apply to firms that meet the conditions specified in *PRU* 2.1.9 R(2), i.e. that perform the adjusted solo solvency calculation in accordance with *PRU* 8.3.

33. *Tier one capital resources* must be calculated in accordance with the *rules* in *PRU* 8.3.41R in relation to restricted assets.

34. The entries at line 16 must equal the net contribution to core *tier one capital resources* of the *firm's related undertakings* in accordance with the calculation in *PRU* 8.3.55R (2).

35. Amounts may only appear in lines 21-23 if the *FSA* has issued a *waiver* permitting these amounts to count as *tier one capital* (tier one waivers). These amounts are restricted by *PRU* 8.3.45R (1)(c), so the amounts in line 24 may not be greater than corresponding amounts in line 19. If the *FSA* has issued a *waiver* permitting amounts to count as *tier two capital* (tier two waivers), these are to be included at line 41, together with any amounts that arise from the restriction at *PRU* 8.3.45R (1)(c).

36. The entries at line 26 must include the net contribution to the *firm* of perpetual non-cumulative *preference shares* issued by the *firm*'s *related undertakings* – ie. the capital represented by perpetual non-cumulative *preference shares* of each of the *firm*'s *related undertakings* that is a *regulated related undertaking* after deduction of the sum of the book value of the investments by the *firm* in the perpetual non-cumulative *preference shares* of each of its *related undertakings* that is a *regulated related undertaking* and the book value of the investments by *related undertakings* of the *firm* in the perpetual non-cumulative *preference shares* of each of its *related undertakings* that is a *regulated related undertaking* – in a manner consistent with the calculation of *GCR* in *PRU* 8.3.

37. The entries at line 28 must equal the net contribution to innovative *tier one capital resources* of the *firm*'s *related undertakings* in accordance with the calculation in *PRU* 8.3.53R (2).

38. The entries at lines 25-28 must be restricted to comply with *PRU* 8.3.45R, so that the total of the amounts in lines 24-28 is not greater than the amount in line 19, and the total amount in lines 27 and 28 is not greater than 15/85 of the total of the amounts in lines 19, 24, 25, 26. Amounts in excess of the limits are entered at lines 42 and 43 as appropriate. If line 42 or 43 includes amounts excluded from line 26 or 28, these amounts must be stated in a supplementary note (code 0304).

39. The entries at line 32 for investments in own *shares* should, in the majority of cases, be zero.

40. For the purpose of completing line 33, the *firm* should refer to *PRU* 2.2.84R and 2.2.85G.

41. The amounts in line 34 must be calculated in accordance with *PRU* 2.2.80R and 2.2.81R.

42. The entries at line 36 must equal the total of any of the deductions of the type specified in lines 32-35 that apply to the *firm'*s *related undertakings*.

43. The entries at lines 45 and 46 for perpetual cumulative *preference shares*, subordinated *debt* and *securities* must be the total, unrestricted, amounts that the *firm* can include in *upper tier two capital* in accordance with *PRU* 2.2.100G to *PRU* 2.2.106G.

44. The entries at line 47 must equal the net contribution to *upper tier two capital resources* of the *firm's related undertakings* – ie. the sum of the *firm*'s share of the *upper tier two capital resources* of each *related undertaking* less the book value of the *firm*'s investment in the *upper tier two capital* of its *related undertakings* – in a manner consistent with the calculation of *GCR* in *PRU* 8.3.

45. The types of capital instrument that a *firm* can include within its *lower tier two capital* are set out at *PRU* 2.2.107G to *PRU* 2.2.115G. These should be split between fixed term *preference shares* and other *tier two instruments* and entered at lines 51 and 52 respectively.

46. The entries at line 53 must equal the net contribution to *lower tier two capital resources* of the *insurer*'s *related undertakings* in accordance with the calculation in *PRU* 8.3.57R(2).

47. The effect of the restrictions at *PRU* 8.3.45R applying to *tier two capital* are shown at lines 62 and 63. Line 62 relates to *tier two capital* as a whole and equals the excess (if any) of line 61 over line 39. Line 63 relates to *lower tier two capital* and equals the excess (if any) of line 59 over the sum of line 62 and 1/2 line 39.

48. The entries at line 71 must be nil.

49. Line 73 must show the deductions for inadmissible assets required by *PRU* 8.3.59R.

50. Line 74 must show the assets in excess of *market risk* and *counterparty* limits in *PRU* 8.3.70R.

51. Line 75 must show negative adjustments for *related undertakings* that are *ancillary services undertakings* required by *PRU* 8.3.62R.

52. The entries at line 76 must be nil.

53. The entries in line 77 must show the total amount calculated in respect of ineligible surplus in accordance with *PRU* 8.3.65R.

54. The entry at line 81 is determined as the amount of the *firm*'s *capital resources* available to meet its *guarantee fund* requirement, having regard to *PRU* 8.3.45R(2). Line 81 must be either:
    - line 79; or
    - (if less) the sum of lines 19, 25, 26, 42, 45, 46, 47 and 59 less the sum of lines 37, 62 and 63.

55. The entry at line 82 is determined as the amount of the *firm*'s *capital resources* available to meet 50% of its *minimum capital requirement*, having regard to *PRU* 8.3.45R(1)(a). Line 82 must be either:
    - line 79; or
    - (if less) sum of lines 19, 24, 25, 26 and 42 less line 37.

56. The entry at line 83 is determined as the amount of the *firm*'s *capital resources* available to meet 75% of its *minimum capital requirement*, having regard to *PRU* 8.3.45R(1)(b). Line 83 must be either:
    - line 79; or
    - (if less) the sum of lines 19, 24, 25, 26, 41, 42, 45, 46 and 47 less line 37 and any excess of line 62 over line 59.

57. Amounts relating to financial engineering shown in lines 91-96 must not include amounts in *related undertakings*.

Instructions 58 onwards apply to all firms

58. Any arrangement relating to *long-term insurance business* which is not entered in lines 91 to 95, but which falls within the definition of financing arrangement in paragraph 12(4) of Appendix 9.4 (Abstract of valuation report) must be disclosed in a supplementary note (code 0305)to this Form.

59. The entry at line 91 (implicit items) must equal the sum of the entries at lines 22 and 41. Lines 92 to 95 do not apply to *general insurance business* and line 91 is only likely to apply to *long-term insurance business*.

60. The entry at line 92 must equal the gross amount of any contingent liability to repay a *debt* to or recapture a liability from a *reinsurer* not already recognised in Form 14. The *firm* must provide in a supplementary note (code 0306) to this Form the following information on each material *reinsurance* arrangement:
    - the amount of any *reinsurance* offset (i.e. the amount of the difference between the *mathematical reserves* at the end of the *financial year in question* were that *reinsurance* to be ignored and the amount of the *mathematical reserves* after deducting the *mathematical reserves* reinsured);
    - the amount of the contingent liability for payment to the *reinsurer*; and
    - the commutation value at the end of the *financial year in question* of the *reinsurance* arrangement.

61. The entry at line 93 must equal the amount of any contingent asset receivable from a *cedant* not already recognised in Form 13 or 14. The *firm* must provide in a supplementary note (code 0307) to this Form the following information on each material outgoing *reinsurance* arrangement:
    - the amount of any *reinsurance* liability (i.e. the amount of the difference between the *mathematical reserves* at the end of the *financial year in question* including the *mathematical reserves* reinsured 'in', and the amount of the *mathematical reserves* were that *reinsurance* to be ignored);
    - the amount of the contingent asset for payments from *cedants*; and
    - the commutation value at the end of the *financial year in question* of the *reinsurance* arrangement.

62. The amount to be shown for contingent loans at line 94 must be the amount, including any interest accrued, still to be repaid from future profits under the arrangements, as at the end of the *financial year in question,* not already recognised in Form 14.

63. Line 95 must include the potential charge against future profits in respect of any other types of financial engineering not included in lines 91 to 94 where the gross amount of any contingent liability is not already recognised in Form 14.

64. The *firm* must provide an explanation of the nature of the adjustments in line 94 and 95 in a supplementary note (code 0308) to this Form, together with the amount of the adjustment for each material arrangement. As part of this note, the commutation value of each of the items included at lines 94 and 95, to the extent that value is not already a component of line 79, must be disclosed.

65. Details of any promises to *long-term insurance business policyholders* conditional upon future profits (other than bonuses not yet declared), or other charges to future profits not already disclosed, must be provided in a supplementary note (code 0309) to this Form.

66. A reconciliation of net *admissible assets* to *total capital resources* after deductions (line 79) must be provided as a supplementary note (code 0301). The reconciliation must contain the following items:

    (i) Net *admissible assets* [Form 13 line 89 (other than long-term business) plus Form 13 line 89 (long-term) less the sum of lines 11, 12 and 49 in Form 14 less Form 15 line 69]

    (ii) Any components of *capital resources* that are treated as a liability in Form 14 or 15 (each to be specified and identified to the entries on Forms 3 and 14/15). (In particular this would include any subordinated loan capital.) [These items would be added to net *admissible assets* in the reconciliation]

(iii) Any components of *capital resources*, not included in (ii), that arise as a result of a *waiver* and are not represented by *admissible assets* included in Form 13 (each to be specified and identified to the entries on Form 3). (In particular this would include any *implicit items* included as a result of a *waiver* within *capital resources*.) [These items would be added to net *admissible assets* in the reconciliation]

(iv) Any other items, each such item to be separately specified. An explanation of each such item is to be provided together with, if applicable, the reference to where the item is included elsewhere in the *return* or in the *firm*'s stand-alone accounts prepared under the Companies Act 1985 or (for *firm*s not preparing accounts under the Companies Act) equivalent overseas legislation or the applicable *United Kingdom* legislation). [These items would be added to or deducted from net *admissible assets* in the reconciliation as appropriate.]

The net *admissible assets* in item (i) plus or minus the additions and deductions in items (ii) to (iv), should equal line 79 (Total capital resources after deductions).

Forms 9 and 9A of Appendix 9.1 (Balance sheet and profit and loss account) are deleted.

The instructions for completion of Form 10 are amended as follows:

Instructions for completion of Form 10

1. An *external insurer* (other than a *pure reinsurer*), an *EEA-deposit insurer* or a *Swiss general insurer* must complete Form 10 in respect of business carried on through a *branch* in the *United Kingdom*. An *UK-deposit insurer* must complete Form 10 in respect of business carried on through its *branches* in *EEA States* taken together.

2. Lines 24-27, 51 and 52 should be blank.

~~1. Amounts included at lines 24 to 27 must be as determined in accordance with Rule 2.10.~~

3. ~~2.~~ Line 63 must be equal to lines 13.92.2 to 13.95.2 less lines 13.92.1 to lines 13.95.1 of the Form for the total other than *long-term insurance business assets* category.

4. ~~3.~~ Line 64 must be Form 15.61.2 less 15.61.1.

5. Line 65 should include transfers from or to head office. (note 1002).

Form 11 of Appendix 9.1 (Balance sheet and profit and loss account) is amended, and Form 12 and the instructions to Forms 11 and 12 are replaced as follows:

Form 11
(Sheet 1)

Calculation of general insurance capital requirement– premiums amount and brought forward amount
~~General insurance business : Calculation of required margin of solvency - first method and brought forward~~

Name of insurer

Global business / UK branch business / EEA branch business

Financial year ended

General/long-term insurance business

	Company registration number	GL/UK/CM	day	month	year	units
R11						£000

				This financial year 1	Previous year 2
Gross premiums receivable			11		
Premiums taxes and levies (included in line 11)			12		
Premiums receivable net of taxes and levies (11-12)			13		
Premiums for classes 11, 12 or 13 (included in line 13)			14		
Premiums for "actuarial health insurance" (included in line 13)			15		
Sub-total A (13 + ½ 14 - $^{2}/_{3}$ 15)			~~15~~16		
~~**Adjusted Sub-total A** if financial year is not a 12 month period to produce an annual figure~~			~~16~~		
~~Division of Sub-total A (or adjusted Sub-total A if appropriate)~~	~~Other than health insurance~~	~~Up to and including sterling equivalent of 50M EURO x 0.18~~	~~17~~		
		~~Excess (if any) over 50M EURO x 0.16~~	~~18~~		
	~~Health insurance~~	~~Up to and including sterling equivalent of 50M EURO x 0.06~~	~~19~~		
		~~Excess (if any) over 50M EURO x 0.16 / 3~~	~~20~~		
~~**Sub-total B** (17+18+19+20)~~			~~21~~		
Gross premiums earned			~~22~~21		
Premium taxes and levies (included in line ~~22~~21)			~~23~~22		
Premiums earned ~~receivable~~ net of taxes and levies (21-22) ~~(22-23)~~			~~24~~23		
Premiums for classes 11, 12 or 13 (included in line 23~~25~~)			~~25~~24		
Premiums for "actuarial health insurance" (included in line 23)			25		
Sub-total H (23 + ½ 24 - $^{2}/_{3}$ 25) ~~(24 + ½ 25)~~			26		
~~**Adjusted Sub-total F** if financial year is not a 12 month period to produce an annual figure~~			~~27~~		
~~Division of Sub-total H~~	~~Other than health insurance~~	~~Up to and including sterling equivalent of 50M EURO x 0.18~~	~~28~~		
		~~Excess (if any) over 50M EURO x 0.16~~	~~29~~		
	~~Health insurance~~	~~Up to and including sterling equivalent of 50M EURO x 0.06~~	~~30~~		
		~~Excess (if any) over 50M EURO x 0.16 / 3~~	~~31~~		
Sub-total I (higher of sub-total A and sub-total H) ~~(28+29+30+31)~~			~~32~~30		
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure			31		
Division of gross adjusted premiums amount: sub-total I (or adjusted sub-total I if appropriate)		~~Up to and including sterling equivalent of 50M EURO~~ x 0.18	32		
		Excess (if any) over 50M EURO x 0.02 ~~0.16~~	33		
Sub-total J (32-33) ~~(32+33)~~			34		

Form 11
(Sheet 2)

Calculation of general insurance capital requirement– premiums amount and brought forward amount
~~**General insurance business : Calculation of required margin of solvency - first method and brought forward**~~

Name of insurer

Global business / UK branch business / EEA branch business

Financial year ended

General/long-term insurance business

	Company registration number	GL/ UK/ CM	day	month	year	units
R11						£000

			This financial year 1	Previous year 2
Sub-total J ~~(greater of sub-total B and Sub-total I)~~		**40**		
Claims paid in period of 3 financial years		**41**		
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	**42**		
	For insurance business accounted for on an accident year basis	**43**		
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	**44**		
	For insurance business accounted for on an accident year basis	**45**		
Sub-total C (41+42+43-44-45)		**46**		
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		**47**		
Sub-total D (46-47)		**48**		
Reinsurance ratio (Sub-total D / sub-total C or, if more, 50% or, if less, 100%)		**49**		
Premiums amount ~~**First result**~~ Sub-total J x **reinsurance ratio** ~~G x Sub-total D (or, if ½ is a greater fraction, x ½) / Sub-total C~~		**50~~49~~**		
Provision for claims outstanding (before discounting and net of reinsurance)		**51~~50~~**		
Brought forward amount (12.43.2 x 51.1 / 51.2 ~~50.1 / 50.2~~ or, if less, 12.43.2)		**52~~51~~**		
Greater of lines 50 and 52 ~~49 and 51~~		**53~~52~~**		

Form 12

Calculation of general insurance capital requirement– claims amount and result

Name of insurer

Global business / UK branch business / EEA branch business

Financial year ended

General/long-term insurance business

	Company registration number	GL/ UK/ CM	day	month	year	units
R12						£000

			This financial year 1	Previous year 2
Reference period (No. of months) See *PRU* 7.2.63R		**11**		
Claims paid in reference period		**21**		
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis	**22**		
	For insurance business accounted for on an accident year basis	**23**		
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis	**24**		
	For insurance business accounted for on an accident year basis	**25**		
Claims incurred in reference period (21+22+23-24-25)		**26**		
Claims incurred for classes 11, 12 or 13 (included in 26)		**27**		
Claims incurred for "actuarial health insurance" (included in 26)		**28**		
Sub-total E (26 + ½ 27 - $^{2}/_{3}$ 28)		**29**		
Sub-total F – Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)		**31**		
Division of sub-total F (gross adjusted claims amount)	x 0.26	**32**		
	Excess (if any) over 35M EURO x 0.03	**33**		
Sub-total G (32 - 33)		**39**		
Claims amount Sub-total G x **reinsurance ratio** (11.49)		**41**		
Higher of **premiums amount** and **brought forward amount** (11.53)		**42**		
General insurance capital requirement (higher of lines 41 and 42)		**43**		

Instructions for completion of Forms 11 and 12

Long-term insurance business

1. For a *composite firm*, Forms 11 and 12 must be completed separately for the total *general insurance business* and for the total *long-term insurance business* which is *class IV* or supplementary accident and sickness insurance business. For other *firms*, the forms must be completed for the total *general insurance business* or for the total *long-term insurance business* which is *class IV* or supplementary accident and sickness insurance business, as appropriate.

2. Notwithstanding instruction 1, if the gross annual office premiums for *class IV* business and supplementary accident and sickness insurance 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 for *long-term insurance business* as long as it can be stated that the entry in line 21 of Form 60 exceeds the amount that would be obtained if Forms 11 and 12 were to be completed for *long-term insurance business*. In this circumstance, the method of estimating the entry in line 21 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 supplementary accident and sickness insurance, must be given.

3. When completing Forms 11 and 12 for *long-term insurance business* the accounting conventions for *general insurance business* should be followed, but reasonable approximations may be used if they are unlikely to result in an underestimate of the *insurance health risk capital component*.

Marine mutuals

4. In the case of a *marine mutual* completing an abbreviated *return* under rule 9.36A, units must be the same as those used in Form M1. If units are in US$ or US$000, then references to the sterling equivalent of Euro in line 33 of Form 11 and lines 33 of Form 12 must be taken to be references to the US$ equivalent of the specified amount of Euro and the Forms must be amended to reflect the use of US$. The bases of conversion adopted must be stated by way of a supplementary note to Form 11 (code 1101).

Pure reinsurers

5. Lines 14 and 24 of Form 11 and line 27 of Form 12 must be left blank for a *pure reinsurer* that does not have *permission* under the *Act* to effect *contracts of insurance*.

Prior year figures

6. *PRU* 7.2.71R requires recalculation of the *gross adjusted premiums amount* and the *gross adjusted claims amount* (but not during *financial years* beginning before 31 December 2004, because of the transitional provisions) if there has been a significant change to the business portfolio. This may alter the *claims amount* or the *premiums amount* used in calculating the *general insurance capital requirement* for the *financial year* in question. For this reason, entries in column 2 (but not the *brought forward amount*: this should (errors excepted) equal the *brought forward amount* calculated in the previous year's return) may differ from the corresponding entries from the previous year. Any restatement of the figures should be explained by way of a supplementary note to Form 11 (code 1102) and Form 12 (code 1202).

7. If the *financial year* began before 1 January 2004: then
   - 11.14.2, 11.24.2, 11.52.2 and 12.27.2 should be left blank;
   - lines 21 to 41, column 2, of Form 12 relating to *long-term insurance business*, should be left blank; and
   - no amounts should be included in column 2 of Form 11 that relate to *class* IV business.

8. Where the *financial year* began between 1 January 2004 and 31 December 2004 (inclusive), the previous *financial year's* figures would normally be those sent to the *FSA* under rule 9.6(1B) and may be unaudited.

9. If the *financial year* began before 1 January 2005:
   - the treatment of "actuarial health insurance" in the calculation will have changed and prior year figures in lines 32 and 33 of Form 11 and lines 32 and 33 of Form 12 may be inappropriate because the form does not represent the calculation at the time. If so, these figures should be left blank and an

explanation should be provided by way of a supplementary note to Form 11 (code 1103) and Form 12 (code 1203).

- the *firm* would not have had a reference period in relation to the *previous financial year* if it had been in existence for less than 3 or 7 *financial years* (as appropriate). If it had no reference period, then lines 11 to 41, column 2, of Form 12 should be left blank.

<u>Premiums and claims</u>

10. *PRU* 7.2.66R requires amounts of *premiums* and *claims* to be determined in accordance with *PRU* 1.3 and so (by virtue of *PRU* 1.3.5R) normal accounting conventions will generally apply. However, *premiums* and *claims* are defined by references to *contracts of insurance* and these themselves are defined by the *Regulated Activities Order* so that *premiums* or *claims* may be included for contracts that would not be treated as insurance under normal accounting conventions.

<u>Euro</u>

11. The Euro amounts in the calculation of line 33 of Form 11 and line 33 of Form 12 will change from time to time as the result of indexation in accordance with *PRU* 7.2.49R. The conversion rate to be used is described in *PRU* 7.2.50R. Changes in the Euro amounts or conversion rates will not affect prior year figures.

<u>Actuarial health insurance</u>

12. "Actuarial health insurance" refers to health insurance business that meets the conditions of *PRU* 7.2.72R or for *class IV insurance business* those conditions as modified by *PRU* 7.2.86R.

Instructions for completion of Form 11

1. Line 30 represents the *gross adjusted premiums amount* calculated in accordance with *PRU* 7.2.56R, if the *financial year* has 12 months. Otherwise line 31 represents the *gross adjusted premiums amount*.

2. In accordance with *PRU* 7.2.54R, the reinsurance ratio calculated at line 49 must be:
   - 100% if sub-total D / sub-total C exceeds 100%;
   - 50% if sub-total D / sub-total C is less than 50%; and
   - sub-total D / sub-total C, otherwise.

3. The provisions in line 51 must be net of *reinsurance* and must not be discounted or reduced to take account of investment income, except for:
   - risks in *classes* 1 or 2;
   - reductions to reflect the discounting of annuities; and
   - a *pure reinsurer* that does not have *permission* under the *Act* to effect *contracts of insurance*.

   For these exceptions, the discount must be calculated in accordance with *PRU* 1.3.5R and, if any amounts in line 51 are discounted, a supplementary note to the Form 11 (code 1104) must describe the items that are discounted.

Instructions for completion of Form 12

1. The reference period in line 11 is specified in *PRU* 7.2.63R.

2. Statistical methods may be used to allocate the *claims*, provisions and recoveries in respect of *classes* 11, 12 and 13 in line 27.

3. Line 31 represents the *gross adjusted claims amount* calculated in accordance with *PRU* 7.2.60R.

Line 43 represents the *general insurance capital requirement* that relates to the following *financial year*: that is the year commencing on the day after the year end to which the *returns* relate.

…

Forms 13, 14, 15 and 16 of Appendix 9.1 (Balance sheet and profit and loss account) are amended as follows:

Form 13
(Sheet 3)

Analysis of admissible assets

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

Category of assets

	Company registration number	GL/UK/CM	Period ended day	month	year	Units	Category of assets
R13						£000	

Debtors **Other assets**				As at the end of this financial year **1**	As at the end of the previous year **2**
Debtors arising out of direct insurance operations	Policyholders		**71**		
	Intermediaries		**72**		
Salvage and subrogation recoveries			**73**		
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 end of 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**		
Deductions ~~(under rules 4.14(2)(b) and 4.14(3))~~ from the aggregate value of assets			**87**		
Total sheet 3 (71 to 86 less 87)			**88**		
Grand total of admissible assets after deduction of market risk and counterparty limits (39+69+88)			**89**		

Reconciliation to asset values determined in accordance with the *insurance accounts rules*

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	**91**		
~~Total assets in excess of the admissibility limits of Appendix 4.2 (as valued in accordance with those rules before applying admissibility limits).~~ Assets in excess of market and counterparty limits	**92**		
~~Solvency margin deduction for *subsidiary undertakings* which are *insurance undertakings*.~~ Capital resources requirement deduction for subsidiary undertakings which are insurance undertakings.	**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 *insurance accounts rules*).~~ Other inadmissible assets	**95**		
Total assets determined in accordance with the *insurance accounts rules* (91 to 95)	**99**		

Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	**100**		

Instructions for completion of Form 13

1. Form 13 must be completed for the total *long-term insurance business assets* of the *insurer* or *branch* 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". The corresponding code box must contain "10" for the total assets and, in the case of separate funds, code numbers allocated sequentially beginning with code "11".

2. Form 13 must be completed in respect of the total assets of the *insurer* or *branch* 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", and the corresponding code box must contain "1".

3. (a) In the case of the *United Kingdom branch return* of an *external insurer* (other than a *pure reinsurer*) Form 13 must be completed for the following categories of assets -

Category	**Code - other than *long-term insurance business assets***	**Code - *long-term insurance business assets***
In the case of a *non-EEA insurer*, assets *deposited* under ~~rule 8.1(1)~~ <u>*PRU* 7.6.54R</u>	2	6
Assets maintained in the *United Kingdom*	3	7
Assets maintained in the *United Kingdom* and the other *EEA States*	4	8

(b) In the case of an EEA *branch* return of a *UK-deposit insurer* which has made a *deposit* under ~~rule 8.1(2~~) <u>*PRU* 7.6.54R</u>, Form 13 must be completed for the following categories of assets -

Category	**Code – other than long-*term insurance business assets***	**Code – *long-term insurance business assets***
Assets deposited under ~~rule 8.1(2)~~ <u>*PRU* 7.6.54R</u>	2	6
Assets maintained in the *United Kingdom* and the other *EEA States*	4	8
Assets maintained in the *United Kingdom* and the *EEA States* where *insurance business* is carried on	5	9

4. In lines 11 to 86 -

(a) for the purpose of classifying (but not valuing) assets, headings and descriptions used above, wherever they also occur in the balance sheet format in Schedule 9A to the *Companies Act*, must have the same meaning as in that Schedule,

<u>(b) *dependants* of the *firm* must be valued in accordance with *PRU* 1.3.35R,</u>

<u>(c) a *related undertaking* that is not a *dependant* of the *firm* must be valued in accordance with *PRU* 1.3.35R unless:</u>

- <u>It is an *ancillary services undertaking* which must be valued at zero;</u>

- It is a *related undertaking* that is not a *regulated related undertaking* which must be valued in accordance with *PRU* 1.3.11R; or

- It is a *regulated related undertaking* which the *firm* has made an election to value in accordance with *PRU* TR 25R

~~(b)~~(d) other assets must be valued in accordance with rule 9.10, ~~and~~

~~(c)~~(e) 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 ~~rule 4.14 (2) (a)~~ *PRU* 3.2.22R(3)(a), (b), (c), (g) and (h). Negative amounts should not be shown at lines 11 to 86. If a deduction is more than the value of the assets to which it relates, the excess element of the deduction should be shown at line 87; and

(f) deductions in respect of *market risk* and *counterparty* risk are to be shown in line 87, to the extent that (e) does not require them to be recognised in other lines.

5. The aggregate value of those investments which are:

(a) *unlisted* investments falling within any of lines 41, 42, 46 or 48 which have been valued in accordance with the *rules* in ~~rule 4.8~~ *PRU* 1.3;

(b) *listed* investments falling within any of lines 41, 42, 46 or 48 which have been valued in accordance with ~~rule 4.8~~ the *rules* in *PRU* 1.3 and which are not *readily realisable*;

(c) units or other beneficial interests in *collective investment schemes* ~~falling within rule 4.9(1)(c)~~ that:

(i) are not schemes falling within the *UCITS Directive*;

(ii) are not authorised unit trust schemes or recognised schemes within the meaning of Part XVII of the *Act*;

(iii) do not employ *derivative contracts* unless they meet the criteria in *PRU* 4.3.5R;

(iv) do not employ contracts or assets having the effect of *derivative contracts* unless they have the effect of *derivative contracts* that meet the criteria in *PRU* 4.3.5R; and

(v) do not include assets other than *admissible assets* among their property; or

(d) reversionary interests or remainders in property other than land or buildings,

must be stated by way of a supplementary note (code 1301 for other than *long-term insurance business* and code 1308 for *long-term insurance business*) to this Form, together with a description of such investments.

6. The aggregate value of those investments falling within lines 46 or 48 which are *hybrid securities* are to be stated by way of a supplementary note (code 1302 for other than *long-term insurance business* and code 1309 for *long-term insurance business*) to this Form.

7. Amounts in respect of salvage or subrogation included above other than at line 73 are to be stated by way of a supplementary note (code 1303) to this Form.

8. The entry at line 85 must be equal to the sum of lines 22.29.3 and lines 25.24.99-99.

9. ~~In line 93 "Solvency margin deduction for *subsidiary undertakings* which are *insurance undertakings*" refers to deductions under rule 4.2.~~ The amount to be shown in line 93 shall represent the total of the relevant proportions in accordance with *PRU* 1.3.37R and *PRU* 1.3.38R of the *individual capital*

resources requirements of the *regulated related undertakings*.

10. ~~In line 95 "Assets of a type not valued above" refers to assets left out of account under rule 4.1(3~~). In line 95 "inadmissible assets" refers to those assets described at *PRU* 2.2.86R that are not assets listed in *PRU* 2 Annex 1R.

11. Lines 60 to 63 and 85 relate only to *general insurance business*.

12. Lines 60 to 63 and 85 must be left blank for "Category of assets" codes "2", "3", "4" and "5".

13. Since the *technical provisions* for *claims* outstanding shown in **Form 15** may only be discounted or reduced to take account of investment income in limited circumstances, the amount shown at line 12 of **Form 15** may need to be increased (see instruction 4 to **Form 15**). In such cases, the *reinsurers'* share shown at line 61 must be adjusted to be consistent with the amount shown in line 12.

14. It would be appropriate to state the amount of any tangible leased asset included at line 80 by way of a supplementary note (code 1314 for other than *long-term insurance business* and code 1316 for *long-term insurance business*) to this Form.

15. Particulars of any other assets included at line 83 must be stated by way of a supplementary note (code 1315 for other than *long-term insurance business* and code 1317 for *long-term insurance business*) to this Form.

The source column of Form 14 is deleted.

Form 14

Long term insurance business liabilities and margins

Name of insurer
Global business/UK branch business/EEA branch
Financial year ended
Category of assets

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets
R14						£000	

				As at end of this financial year 1	**As at end of the previous year 2**
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 which had fallen due for payment before the end of the financial year		Gross amount	15		
		Reinsurers' share	16		
		Net (15-16)	17		
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 insurance business	31		
		Reinsurance accepted	32		
		Reinsurance ceded	33		
	Debenture loans	Secured	34		
		Unsecured	35		
	Amounts owed to credit institutions		36		
	Other creditors	Taxation	37		
		Other	38		
Accruals and deferred income			39		
~~Provisions for adverse changes (calculated in accordance with rule 5.3)~~ <u>Provision for "reasonably foreseeable adverse variations"</u>			41		
Total other insurance and non-insurance liabilities (17 to 41)			49		
Excess of the value of net admissible assets			51		
Total liabilities and margins			59		

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		
Amounts 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		

Instructions for completion of Form 14

1. The Form must be completed for the total *long-term insurance business liabilities* and margins of the *insurer* or *branch* 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". The corresponding code box must be completed with the same entries as were used on the corresponding Form 13.

2. The entry at line 11 must equal the sum of lines 21, 43, 44 and 45 of the appropriate Form or Forms 58.

3. The entry at line 12 must equal line 42 of the appropriate Form or Forms 58.

4. The entry at line 13 must equal line 49 of the appropriate Form or Forms 58.

5. The entry at line 14 must equal line 59 of the appropriate Form or Forms 40.

6. Where the provision required by *PRU* 4.3.17R(3) is implicit (i.e. the obligation to pay the monetary amount is recognised under the *rules* in *PRU* 1.3), it would be appropriate to state, in a supplementary note (code 1404) to this Form, the amount of the provision.

~~6~~7 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 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.

~~7~~ 8 The entry at line 63 must be zero for *financial years* ending on or after 31 December 2004. ~~the amount specified in the *appointed actuary's* certificate in accordance with paragraph 8(a)(ii) of Appendix 9.6, but only insofar as it relates to the fund, funds or group of funds to which this Form 14 relates.~~

9. It would be appropriate to state, in a supplementary note (code 1403) to this Form, the amount of each provision, included in line 22, in respect of a deficit in a *regulated related undertaking* and the identity of the *undertaking*.

Form 15

Liabilities (other than long term insurance business)

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

	Company registration number	GL/UK/CM	Period ended day	month		Units
R15						**£000**

				As at the end of this financial year **1**	As at the end of the previous year **2**
Technical provisions (gross amount)	Provision for unearned premiums		**11**		
	Claims outstanding		**12**		
	Provision for unexpired risks		**13**		
	Equalisation provisions	Credit business	**14**		
		Other than credit business	**15**		
	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 insurance business	**41**		
		Reinsurance accepted	**42**		
		Reinsurance ceded	**43**		
	Debenture loans	Secured	**44**		
		Unsecured	**45**		
	Amounts owed to credit institutions		**46**		
	Other creditors	Taxation	**47**		
		Recommended dividend	**48**		
		Other	**49**		
Accruals and deferred income			**51**		
Total (19 to 51)			**59**		
Provision for "reasonably foreseeable adverse variations" ~~adverse changes calculated in accordance with Rule 5.3 [regulation 61 of the Insurance Companies Regulations 1994]~~			**61**		
Cumulative preference share capital			**62**		
Subordinated loan capital			**63**		
Total (59 to 63)			**69**		

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	**71**		

Instructions for completion of Form 15

1. Amounts in lines 11 to 13 and 16 must be stated gross of *reinsurers'* share.

2. The aggregate amount of any accrued dividend in respect of cumulative *preference shares* issued by the *insurer* must be shown by way of a supplementary note (code 1503) to this Form.

3. Only equalisation provisions that are created as a result of a regulatory requirement are to be included at lines 14 and 15

4. 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; or

   (c) if the *insurer* is a *pure reinsurer* which does not have permission under the *Act* to effect *contracts of reinsurance*.

   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 the discounted provisions. If the *technical provisions* are increased the amount of the increase must be shown by way of a supplementary note (code 1505) to this Form, together with the corresponding increase in the *reinsurers*' share shown in line 61 of **Form 13**.

5. It would be appropriate to state the amount of each provision, included in line 22, in respect of a deficit in a *regulated related undertaking* and the identity of the *undertaking* in a supplementary note (code 1504) to this Form.

6. Where the provision required by *PRU* 4.3.17R(3) is implicit (i.e. the obligation to pay the monetary amount is recognised under the *rules* in *PRU* 1.3), it would be appropriate to state, in a supplementary note (code 1506) to this Form, the amount of the provision.

…

Instructions for completion of Form 16

1. In addition to the supplementary note (code 1601) required under **Appendix 9.1** paragraph 5(2), where any brought forward amounts on any Form are restated due to currency reconversion it would be appropriate to briefly state this fact in a supplementary note (code 1602) to this Form in order to facilitate the *FSA's* computerised validation of the *return*. This fact may be stated by a simple statement, e.g. 'Some of the brought forward amounts shown in the forms xx to xx have been restated from the corresponding carried forward amounts included in the previous year's *return* due to the reconversion of foreign currency amounts at a different rate of exchange'. No further details need be given.

2. Particulars of any amounts included at lines 21 must be stated by way of a supplementary note (code 1603) to this Form.

3. Particulars of any amounts included at lines 41 must be stated by way of a supplementary note (code 1604) to this Form.

…

Forms 18 and 19 of Appendix 9.1 (Balance sheet and profit and loss account) are inserted as follows:

Form 18

With-profits insurance capital component for the fund

Name of insurer
With-profits fund
Financial year ended
Units

			As at end of this financial year **1**	**As at end of the previous year** **2**
Regulatory excess capital				
Regulatory value of assets	Long-term admissible assets of the fund	11		
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of non-profit insurance contracts written in the fund	13		
	Long-term admissible assets of the fund covering the long-term insurance capital requirement allocated in respect of non-profit insurance contracts written in the fund	14		
	Long-term admissible assets of the fund covering the resilience capital requirement allocated in respect of non-profit insurance contracts written in fund	15		
	Total (11+12-(13+14+15))	19		
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21		
	Regulatory current liabilities of the fund	22		
	Total (21+22)	29		
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31		
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, long-term insurance capital requirement and resilience capital requirement (29+31+32)		39		
Regulatory excess capital (19-39)		49		
Realistic excess capital				
Realistic excess capital		51		
Excess assets allocated to with-profits insurance business				
Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)		61		
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)		62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)		63		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63 and zero; else greater of 61 and zero)		64		

Instructions for completion of Form 18

1. The entries at lines 11, 12, 13, 14 and 15 must equal the values determined in accordance with *PRU* 7.4.24R.

2. The entry at line 19 must equal the value determined in accordance with *PRU* 7.4.23R(1).

3. The entries at lines 21 and 22 must equal the values determined in accordance with *PRU* 7.4.29R.

4. The entries at lines 29, 31 and 32 must equal the values determined in accordance with *PRU* 7.4.23R(2)(a), (b) and (c) respectively.

5. The entry at line 39 must equal the value determined in accordance with *PRU* 7.4.23R(2).

6. The entry at line 49 must equal the value determined in accordance with *PRU* 7.4.23R.

7. The entry at line 51 must equal the value at Form 19, Line 66.

8. The entry at line 62 must equal C, determined in accordance with *PRU* 7.4.7R(3)(a).

9. The entry at line 63 must equal D, determined in accordance with *PRU* 7.4.7R(3)(b).

10. The entry at line 64 must equal the contribution in respect of the fund to the aggregate value determined in accordance with *PRU* 7.4.7R(1).

Form 19
(Sheet 1)

Realistic balance sheet

Name of insurer
With-profits fund
Financial year ended
Units

			As at end of this financial year 1	As at end of the previous year 2
Realistic value of assets available to the fund				
Regulatory value of assets		11		
Implicit items allocated to the fund		12		
Value of shares in subsidiaries held in fund (regulatory)		13		
Excess admissible assets		21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund		22		
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22		23		
Value of shares in subsidiaries held in fund (realistic)		24		
Prepayments made from the fund		25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))		26		
Support arrangement assets		27		
Assets available to the fund (26+27)		29		
Realistic value of liabilities of fund				
With-profits benefit reserve		31		
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32		
	Past miscellaneous deficit attributed to with-profits benefits reserve	33		
	Planned enhancements to with-profits benefits reserve	34		
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35		
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41		
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43		
	Future costs of smoothing (possibly negative)	44		
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47		
	Total (32+34+41+42+43+44+45+46+47 -(33+35+36))	49		
Realistic current liabilities of the fund		51		

Realistic value of liabilities of fund (31+49+51)	59		

Form 19
(Sheet 2)

Realistic balance sheet

Name of insurer
With-profits fund
Financial year ended
Units

		As at end of this financial year 1	As at end of the previous year 2
Realistic excess capital and additional capital available			
Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62		
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64		
Risk capital margin for fund (62-59)	65		
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67		
Working capital for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		
Other assets potentially available if required to cover the fund's risk capital margin			
Additional amount potentially available for inclusion in line 62	81		
Additional amount potentially available for inclusion in line 63	82		

Instructions for completion of Form 19

1. The entry at line 11 must equal the value at Form 18, Line 19.

2. The entry at line 12 must equal the value at Form 18, Line 12.

3. The entry at line 13 must be the amount determined in accordance with *PRU* 1.3 and excluded from the amount calculated in accordance with *PRU* 7.4.33R(1)(a).

4. The entry at line 21 must be the amount of the fund's excess *admissible assets*, determined in accordance with *PRU* 7.4.33R(1)(b).

5. The entry at line 22 must be the present value of future profits (or losses) on any *non-profit insurance contracts* written in the *with-profits fund*, determined in accordance with *PRU* 7.4.33R(1)(c).

6. The entry at line 23 must be the market value of any *derivative* or *quasi-derivative* determined in accordance with *PRU* 7.4.33R(1)(d).

7. The entry at line 24 must be the amount determined in accordance with *PRU* 7.4.33R(1)(e).

8. The entry at line 25 must be the amount determined in accordance with *PRU* 7.4.33R(1)(f).

9. The entry at line 26 must be the amount determined in accordance with *PRU* 7.4.32R(1).

10. The entry at line 27 must be any other amount providing capital support to the fund under a support arrangement, included with the prior agreement of the *FSA*.

11. The entry at line 31 must be the amount determined in accordance with *PRU* 7.4.40R(1).

12. The entries at lines 32, 33, 34, 35, 36, 41, 42, 43, 44, 45, 46 and 47 must be the amounts determined in accordance with *PRU* 7.4.137R(1) to (11).

13. The entry at line 32 is the (positive) amount determined in accordance with *PRU* 7.4.137R(1) if this represents a surplus.

14. The entry at line 33 is the (positive) amount determined in accordance with *PRU* 7.4.137R(1) if this represents a deficit.

15. The entries at lines 34, 35, 36, 41, 42, 43, 44 and 45 are the amounts determined in accordance with *PRU* 7.4.137R(2) to (9) respectively.

16. The entries at lines 46 and 47 are the values determined in accordance with *PRU*7.4.137R(10) and (11).

17. The entry at line 49 must be the amount determined in accordance with *PRU* 7.4.40R(2).

18. The entry at line 51 must be the amount determined in accordance with *PRU* 7.4.40R(3).

19. The entry at line 59 nust be the amount determined in accordance with *PRU* 7.4.32R(2)(a).

20. The entry at line 62 must be the amount described as A and determined in accordance with *PRU* 7.4.43R(3)(a) adjusted to exclude any amount taken into consideration under *PRU* 7.4.45R(2)(c).

21. The entry at line 63 must be any amount taken into consideration under *PRU* 7.4.45R(2)(c) in determining the amount described as A in accordance with *PRU* 7.4.43R(3)(a).

22. The entry at line 64 must be the amount described as A and determined in accordance with *PRU* 7.4.43R(3)(a).

23. The entry at line 65 must be the amount determined in accordance with *PRU* 7.4.32R(2)(b).

24. The entry at line 66 must be the amount determined in accordance with *PRU* 7.4.32R.

25. The entry at line 81 must be an amount not exceeding the sum of the value of the net shareholders assets of the *firm* and the surplus assets of the *firm*'s *non-profit funds*, to the extent not included at any Form 19 line 27 or at any Form 19 line 62 and to the extent not required to meet regulatory capital requirements in respect of any business written outside the fund.

26. The entry at line 82 must be an amount not exceeding 50% of the present value of future profits arising from insurance contracts written by the *firm* outside its *with-profits funds* reduced by the sum of any amounts included at any Form 19 line 63.

APPENDIX 9.2 (rules 9.14 and 9.22)

GENERAL INSURANCE BUSINESS:
REVENUE ACCOUNT AND ADDITIONALINFORMATION
(FORMS 20 TO 39)

…

7. Where an *insurer* includes *insurance business* in another *accounting class* under 6(1) or 6(2)(a), the following information must be stated by way of a supplementary note <u>(code 2001)</u> to **Form 20** -

. . .

. . .

<u>**Presentation of amounts**</u>

<u>8A</u> <u>Where in any Form an amount which is shown brought forward from a previous year differs from the corresponding amount shown as carried forward from that year and the difference is not due solely to the use of a different rate 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 in accordance with **Appendix 9.1** paragraph 7. For **Forms 21, 22, 23, 24, 26, 27, 28, 31, 32, 33, 34** or **35,** the code for the supplementary note is 2101, 2201, 2301, 2401, 2601, 2701, 2801, 3101, 3201, 3301, 3401 or 3501 respectively.</u>

. . .

UK and overseas business

16. (1) For each *accounting class* there must be stated separately for business accounted for on an accident year and on an underwriting year basis the following by way of a supplementary note <u>(code 2002)</u> to **Form 20** –

. . .

. . .

Transfers of *general insurance business*

17. (1) If, during the *financial year*, *policies* already effected by another *insurer* have been transferred to the *insurer*, an *insurer* must state, in respect of each *accounting class*, the following by way of a supplementary note to **Form 23** <u>(code 2302)</u> and <u>**Form**</u> **24** <u>(code 2403)</u> -

. . .

. . .

Unearned premiums

18. In **Forms 21** and **25**, the basis on which unearned premiums are calculated and the reason for adopting this basis must be stated by way of supplementary note

(code 2102 in the case of **Form 21** and code 2501 in the case of **Form 25**).

. . .

Provision for unexpired risks

. . .

20. (1) Where the amount included at column 3 line 19 (provision for unexpired risks) in any **Form 22** or at column 99-99 of line 23 (provision for unexpired risks) in any **Form 25** has been determined after taking into account expected investment return, the following must be stated by way of supplementary note (code 2205 in the case of **Form 22** and code 2502 in the case of **Form 25**) –

. . .

. . .

Cessation of business

21. (1) If the *insurer* has effected no 'new *contracts of insurance*' of any one or more *classes* of *general insurance business* during the financial year in question, the date on which the last 'new contract' of each such *class* was effected must be stated by way of a supplementary note (code 2003) to **Form 20**.

. . .

Claims management costs

22. (1) In **Forms 22** and **24**, the basis used for the determination of amounts for *claims management costs* payable in the *financial year in question* and carried forward to the following financial year must be stated by way of a supplementary note (code 2202 in the case of **Form 22** and code 2404 in the case of **Form 24**).

. . .

(4) Where the amount in respect of *claims management costs* carried forward and included in any Form 22 or 24 has been determined after taking into account expected investment return, there must be stated by way of supplementary note to ~~that~~ Form 22 (code 2203) or Form 24 (code 2405)-

…

Acquisition costs

23. The basis used for determination of the amounts for acquisition costs (other than commission) payable in the *financial year in question* and carried forward to the next *financial year*, as shown at line 22 of **Form 22** and line 42 of **Form 24**, must be stated by way of a supplementary note to ~~those~~ Form~~s~~ 22 (code 2204) and Form 24 (code 2406).

Underwriting year accounting

24. (1) With reference to the *financial year in question* and in respect of each *accounting class*, the following information must be stated by way of a supplementary note (code 2402) to **Form 24** –

…

Business managed together

. . .

25. …

(2) Where any amount is shown on **Form 25** or **29** for the transfer of anticipated surplus, the following must be stated by way of supplementary note to ~~that Form~~ **Form 25** (code 2504) or **Form 29** (code 2901) –

. . .

Application of accounting practice

26. …

(2) Where amounts of in respect of an inwards or outwards *contract of insurance* have been excluded from the revenue account, the following must be shown by way of a supplementary note (code 2004) to **Form 20** –

. . .

. . .

27. …

(5) The following must be stated by way of supplementary note (code 3003) to **Form 30** –

. . .

28. Where the *reinsurers'* share of *claims* incurred (as stated in any **Form 22** or **25**) includes amounts expected to be covered from *reinsurers* more than 12 months after the payment of the underlying gross *claims* by the *insurer*, the following must be started by way of supplementary note to **Form 22** (code 2206) or **25** (code 2503) ~~(~~as appropriate~~)~~ –

. . .

. . .

29. …

(2) Where the name required by (1) is not sufficient to identify the nature of the objects exposed to such risks and the nature of the cover provided against such risks, the information must be stated by way of a supplementary note to **Form 31** (code 3102), **32** (code 3202) or **34** (code 3402) as the case may be.

. . .

. . .

Country codes

31. The country codes required for **Forms 31, 32** and **34** must be in accordance with the following Table:

COUNTRY	**CODE**
Afghanistan	QS
Albania	CE
Algeria	KA
Andorra	CG
Angola	MT
Anguilla	GY
Antigua And Barbuda	GP
Argentina	JA
Armenia	RB
Aruba	GM
Australia	EA
Austria	BL
Azerbaijan	RC
Bahamas	GD
Bahrain	PN
Bangladesh	QA
Barbados	GA
Belarus	RD
Belgium	BD
Belize	HH
Benin	LK
Bermuda	GE
Bhutan	QX
Bolivia	JL
Bosnia and Herzegovina	CH
Botswana	MG
Brazil	JC
Brunei	QY
Bulgaria	CD
Burkina Faso	LL
Burundi	MW
Cambodia	QU
Cameroon	MV
Canada	FA
Cape Verde	LM
Central African Republic	MY
Chad	NA
Channel Islands	BA
Chile	JB
China (Taiwan)	QQ
China,Peoples Rep.Of	QJ
Colombia	JD
Comoros	MX

Congo, Democratic Republic of	MM
Congo (Republic of)	MU
Costa Rica	HF
Croatia	CJ
Cuba	GJ
Curacao	GL
Cyprus	DA
Czech Republic	CP
Denmark	BE
Djibouti	NB
Dominica	GR
Dominican Republic	GF
Ecuador	JF
Egypt	KE
El Salvador	HB
England	AC
Equatorial Guinea	NC
Eritrea	NK
Estonia	RE
Ethiopia	MP
European Currencies, Weighted Average Of	CZ
European Currency Unit	CY
Fiji	EC
Finland	BR
France	BF
French Guiana	JK
Gabon	ND
Gambia,The	LA
Georgia	RF
Germany	BK
Ghana	LB
Gibraltar	DB
Grand Cayman Islands	GW
Greece	BN
Grenada	GQ
Guam	RW
Guatemala	HD
Guinea	LN
Guinea-Bissau	LP
Guyana	JH
Haiti	GK
Home Foreign-*United Kingdom*	AB
Honduras	HC
Hong Kong	QE
Hungary	CC
Iceland	BU
India	QB
Indonesia	QM
Iran	PB
Iraq	PJ

Irish Republic	BC
Isle Of Man	BB
Israel	PC
Italy	BG
Ivory Coast	LH
Jamaica	GB
Japan	QK
Jordan	PL
Kazakhstan	RG
Kenya	MA
Kiribati	ED
Kirjhizia (alternate name for Kyrgystan)	RV
Korea, South	QR
Korea,North	QP
Kuwait	PD
Kyrgyzstan	RV
Laos	RT
Latvia	RJ
Lebanon	PE
Lesotho	MH
Liberia	LG
Libya	KD
Liechtenstein	CK
Lithuania	RK
Luxembourg	BH
Macedonia	BZ
Madagascar	MS
Malawi	MD
Malaysia	QF
Maldives	RU
Mali	LE
Malta	DC
Marshall Islands	EM
Mauritania	LS
Mauritius	ML
Mexico	HA
Micronesia	EN
Moldova	RL
Monaco	CF
Mongolia	RM
Monserrat	GS
Morocco	KB
Mozambique	MR
Myanmar	QH
Namibia	NE
Nauru	EE
Nepal	QT
Netherlands	BJ
Netherlands Antilles	GX
New Zealand	EB

Nicaragua	HE
Niger	NF
Nigeria	LC
Northern Ireland	AF
Norway	BS
Oman	PP
Pakistan	QC
Palau	EP
Panama	HG
Papua New Guinea	EF
Paraguay	JM
Peru	JG
Philippines	QL
Poland	BV
Portugal	BP
Puerto Rico	GG
Qatar	PG
Romania	BW
Russia	RN
Rwanda	NG
San Marino	CL
Sao Tome And Principle	LQ
Saudi Arabia	PF
Scotland	AE
Senegal	LJ
Seychelles	NH
Sierra Leone	LD
Singapore	QG
Slovakia	CQ
Slovenia	CM
Solomon Islands	EG
Somalia	MQ
South Africa	MK
Spain	BQ
Sri Lanka	QZ
St Helena And Dependencies	NJ
St Kitts-Nevis	GT
St Lucia	GV
St Martin	GN
St Vincent and The Grenadines	GU
Sudan	MN
Surinam	JJ
Swaziland	MJ
Sweden	BT
Switzerland	BM
Syria	PK
Tahiti	QV
Tajikistan	RP
Tanzania	MC
Thailand	QN

Togo	LR
Tonga	EH
Trinidad And Tobago	GC
Tunisia	KC
Turkey	PA
Turkmenistan	RQ
Turks & Caicos Islands	GZ
Tuvalu	EJ
Uganda	MB
Ukraine	RR
United Arab Emirates	PH
United Kingdom	AA
Uruguay	JN
USA	FB
Uzbekistan	RS
Vanuatu	EK
Vatican City	CN
Venezuela	JE
Vietnam	QW
Virgin Islands	GH
Wales	AD
Western Samoa	EL
Yemen,South	PM
Yugoslavia	BY
Zambia	ME
Zimbabwe	MF

…

Forms 20, 21, 25, 26, 28, 30, 37, 38 and 39 of Appendix 9.2 (General Insurance Business: revenue account and additional information) are amended as follows:

Instructions for completion of Form 20

1. Particulars of any amounts included at lines 16, 25 or 32 ('other technical income or charges') are required to be stated by way of a supplementary note (code 2005) to the form.

…

Instructions for completion of Form 21

1. Lines 13 to 15 of **Form 21** should include *premiums* actually received prior to the *financial year*, but relating to risks incepted in the *financial year* and exclude *premiums* received during the *financial year*, but relating to risks incepting after the end of the *financial year*. In **Forms 13** and **15** the accounting treatment adopted for *premiums* received in respect of risks incepting in future *financial years* should be the same as that adopted in the shareholder accounts, or, if there are no shareholder accounts, should be in accordance with generally accepted accounting practice. If this results in different amounts for the provision of unearned premium (either gross or the *reinsurers*' share) being shown in **Forms 13** or **15** as compared to **Form 21**, it would be appropriate to identify, and provide an explanation, of the difference in a supplementary note (code 2103) to the form.

…

Instructions for completion of Form 25

. . .

8. Particulars of any amounts included at line 25 on must be stated in a supplementary note (code 2505) to the form.

…

Instructions for completion of Form 26

. . .

11. Where the allocation or apportionment to business categories of any *reinsurance* treaties accepted which have previously been reported differs from that adopted previously, rule 9.17(3)(a) requires an explanation of the nature of the change and the reasons for it in a supplementary note (code 2603) to this form.

12. Where the allocation or apportionment to business categories of any *reinsurance* treaties accepted differs from that adopted previously for *reinsurance* treaties relating to similar risks, rule 9.17(3)(a) requires an explanation of the nature of the change and the reasons for it in a supplementary note (code 2604) to this form.

…

Instructions for completion of Form 28

. . .

8. Where the allocation or apportionment to business categories of any *reinsurance* treaties accepted which have previously been reported differs from that adopted previously, rule 9.17(3)(a) requires an explanation of the nature of the change and the reasons for it in a supplementary note (code 2803) to this form.

9. Where the allocation or apportionment to business categories of any *reinsurance* treaties accepted differs from that adopted previously for *reinsurance* treaties relating to similar risks, rule 9.17(3)(a) requires an explanation of the nature of the change and the reasons for it in a supplementary note (code 2804) to this form.

. . .

Instructions for completion of Form 30

. . .

5. The methods and assumptions used in determining the yield in accordance with instruction 4 must be stated by way of a supplementary note (code 3001) to this Form.

. . .

7. The treatment of expected income payments from any asset where such payment is in default must be stated by way of a supplementary note (code 3002) to this Form.

. . .

Form 37

Equalisation provisions

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

	Company registration number	GL/UK/CM	Period ended day	month	year	Units
R37						**£000**

Calculation of the maximum provision		Business ~~group~~ grouping A (property) 1	Business ~~group~~ grouping B (business interruption) 2	Business ~~group~~ grouping C ~~(marine and aviation)~~ 3	Business ~~group~~ grouping D (nuclear) 4	Business ~~group~~ grouping E ~~(non-proportional treaty)~~ 5	All business ~~groups~~ 6	Credit insurance business 7
Total net premiums written in the previous 4 years	**11**							
Net premiums written in the current year	**12**							
Maximum provision	**13**							

Calculation of the transfer to/from the provision

Equalisation provision brought forward	**21**							
Transfers in	**22**							
Total abnormal loss	**23**							
Provisional transfers out	**24**							
Excess of provisional transfer out over fund available	**25**							
Provisional amount carried forward (21+22-24+25)	**26**							
Excess, if any, of 26 over 13	**27**							
Equalisation provision carried forward (26-27)	**28**							
Transfer in/(out) for financial year (28-21)	**29**							

Instructions for completion of Form 37

1. Lines 11 & 12, columns 1 to 5, must include net written premium from ~~the~~ Form 21 (accident year *insurance business*) and/or Form 24 (underwriting year *insurance business*) that in whole or in part covers each ~~*business group*~~ insurance business grouping.

2. Only premium for *financial years* covered by the scheme may be included in lines 11 & 12, columns 1 to 5 (~~see Appendix 6.1, Part 111~~ see *PRU* 7.5.20R). Adjustments in respect of prior years must be included at line 12.

3. Any *insurance business* that has been transferred must be excluded from lines 11 & 12, columns 1 to 5 (~~see rules 6.8 and 6.9~~ see *PRU* 7.5.32R to *PRU* 7.5.37G).

4. Line 13, columns 1 to 5 must show the maximum provision for each ~~*business group*~~ *insurance business grouping* calculated in accordance with ~~Appendix 6.1~~ *PRU* 7.5.24R. If *insurance business* in a group has been written for less than 5 years, the average of the qualifying years must be used.

5. If all rights and obligations in an ~~*business group*~~ *insurance business grouping* have been transferred, line 13 columns 1 to 5 must be left blank at the appropriate column.

6. Line 22, columns 1 to 5 must be calculated by multiplying the figure at line 12 for each ~~*business group*~~ *insurance business grouping* by the % in ~~paragraph 3 of Part 1 of Appendix 6.1~~ *PRU* 7.5.27R.

7. Line 23 must be, for each ~~*business group*~~ *insurance business grouping*, the total of abnormal losses, if any, brought forward from Forms 38 and 39, line 19. These must be entered in the same columns as they were on Forms 38 and 39.

8. The transfer out for each ~~*business group*~~ *insurance business grouping* at line 24, columns 1 to 5 must not exceed the line 13 maximum provision for that group.

9. The sum of columns 1 to 5 of lines 13, 22 and 24 must be entered in column 6 of the relevant line.

10. In the first year of the scheme, line 21 column 6 must be left blank. In subsequent years this figure must be brought forward from the previous year's figure (normally the figure at Form 15, line 15). Only equalisation provisions required by the *rules* in~~the *Equalisation Reserves Rules*~~ *PRU* 7.5.11R to *PRU* 7.5.37G may be included.

11. The calculations for lines 25 to 29, column 6 must be carried out and the net transfer in or out for the year must be entered at Form 16, line 12, and the provision carried forward entered at Form 15, line 15.

12. Line 13, column 7 must be 150% of the highest annual amount of net premiums written in the last 5 years.

13. Line 21, column 7 must equal the statutory credit equalisation provision, if any, brought forward from the previous year at Form 15, line 14.

14. Line 22, column 7 must be 75% of the technical surplus, if any, brought forward from Forms 38 and/or 39, line 29, subject to a limit of 12% of line 12.

15. Line 24, column 7 must equal the technical deficit, if any, brought forward from Forms 38 and/or 39, line 29.

16. The calculations for lines 25 to 29, column 7 must be carried out and the net transfer in or out for the year must be entered at Form 16, line 12, and the provision carried forward entered at Form 15, line 14.

Form 38

Equalisation provisions technical account : Accident year accounting

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

	Company registration number	GL/UK/CM	Period ended day	month	year	Units
R38						£000

Other than credit business		Business ~~group~~ grouping A (property) 1	Business ~~group~~ grouping B (business interruption) 2	Business ~~group~~ grouping C (marine and aviation) 3	Business ~~group~~ grouping D (nuclear) 4	Business ~~group~~ grouping E (non-proportional treaty) 5
Net premiums earned	11					
Claims incurred net of reinsurance	12					
Trigger claims value	13					
Abnormal loss	19					
Trigger claims ratio		72.5%	72.5%	95%	25%	100%

Credit business

Net premiums earned	21	
Claims incurred net of reinsurance	22	
Claims management costs	23	
Net operating expenditure	24	
Technical surplus/(deficit) (21-22-23-24)	29	

Instructions for completion of Form 38

1. Apart from *credit insurance business*, any *insurance business* transferred to an *insurer* by novation or under Part VII of the *Act* (or the *1982 Act*) must be accounted for in accordance with ~~rule 6.9~~ *PRU* 7.5.34R.

2. The entries at line 11 must be derived from Form 21, that in whole or in part covers the *insurance business* ~~*group*~~ *grouping*, at line 11, column 5 and line 19, column 5.

3. The entries at line 12 must be derived from Form 22, that in whole or part covers the *insurance business* ~~*group*~~ *grouping*, at line 13 and 17, column 4.

4. The entries at line 13 must be line 11 (or nil if line 11 is negative) multiplied by the trigger *claims* ratio for the *insurance business* ~~*group*~~ *grouping*.

5. For each *insurance business* ~~*group*~~ *grouping* the entry at line 19 must be the amount, if any, by which the entry at line 12 for that *insurance business* ~~*group*~~ *grouping* exceeds the entry at line 13. If the entry at line 12 does not exceed the entry at line 13, line 19 must be left blank.

6. The entry at line 21 must be derived from Form 21 for *accounting class* 8, at line 11, column 5 and line 19, column 5, to include only *insurance business* in *general insurance business class* 14.

7. The entry at line 22 must be derived from Form 22 for *accounting class* 8, at lines 13 and 17, column 4, to include only *insurance business* in *general insurance business class* 14.

8. The entry at line 23 must be derived from Form 22 for *accounting class* 8, at lines 14 and 18, column 4, to include only *insurance business* in *general insurance business class* 14.

9. The entry at line 24 must be derived from Form 22 for *accounting class* 8, at lines 19 and 29, column 4, to include only *insurance business* in *general insurance business class* 14.

Form 39

Equalisation provisions technical account : Underwriting year accounting

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

	Company registration number	GL/UK/CM	Period ended day	month	year	Units
R39						**£000**

Other than credit business		Business ~~group~~ grouping A (property) 1	Business ~~group~~ grouping B (business interruption) 2	Business ~~group~~ grouping C (marine and aviation) 3	Business ~~group~~ grouping D (nuclear) 4	Business ~~group~~ grouping E (non-proportional treaty) 5
Net premiums written	**11**					
Claims net of reinsurance	**12**					
Trigger claims value	**13**					
Abnormal loss	**19**					
Trigger claims ratio		72.5%	72.5%	95%	25%	100%

Credit business

Net premiums written	**21**	
Claims net of reinsurance	**22**	
Claims management costs	**23**	
Net operating expenditure	**24**	
Technical surplus/(deficit) (21-22-23-24)	**29**	

Instructions for completion of Form 39

1. Apart from *credit insurance business*, any *insurance business* transferred to an *insurer* by novation or under Part VII of the *Act* (or the *1982 Act*) must be accounted for in accordance with ~~rule 6.9~~ *PRU* 7.5.34R.

2. The entries at line 11 must be derived from Form 24, that in whole or in part covers the ~~*business group*~~ *insurance business grouping*, at line 19, column 99-99.

3. The entries at line 12 must be derived from column 99-99 of Forms 24 and 25, that in whole or part covers the ~~*business group*~~ *insurance business grouping*, as follows:

   line 29 on Form 24 plus line 29 less line 15 plus line 24 on Form 25 less line 29 plus line 15 less line 24 on Form 25 for the *preceding financial year*.

4. The entries at line 13 must be line 11 (or nil if line 11 is negative) multiplied by the trigger *claims* ratio for the ~~*business group*~~ *insurance business grouping*.

5. For each ~~*business group*~~ *insurance business grouping* the entry at line 19 must be the amount, if any, by which the entry at line 12 for that ~~*business group*~~ *insurance business grouping* exceeds the entry at line 13. If the entry at line 12 does not exceed the entry at line 13, line 19 must be left blank.

6. The entry at line 21 must be derived from Form 24 for *accounting class* 8, at line 19, column 99-99, to include only *insurance business* in *general insurance business class* 14.

7. The entry at line 22 must be derived from Form 24 for *accounting class* 8, at line 29, column 99-99, plus line 53, column 99-99 less line 51, column 99-99, to include only *insurance business* in *general insurance business class* 14.

8. The entry at line 23 must be derived from Form 24 for *accounting class* 8, at line 39, column 99-99, to include only *insurance business* in *general insurance business class* 14.

9. The entry at line 24 must be derived from Form 24 for *accounting class* 8, at line 49 column 99-99, to include only *insurance business* in *general insurance business class* 14.

…

Forms 40, 43 and 44 of Appendix 9.3 (Long-term Insurance business: revenue account and additional information) are amended as follows:

Instructions for completion of Form 40

…

2. Any item of income which cannot properly be allocated to lines 11, 12, 13 or 14 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 (Code 4002).

3. Where an *insurer* 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 26 and particulars must be specified in a supplementary note (Code 4003).

4. Where a transfer is made to the non-technical account, the entry at line 26 must show amounts which have been included in line 47 of Form 58. Transfers from or to other funds must be included in line 15 or 25, with transfers to reserves associated with a transfer of contracts from one fund to another specified in a supplementary note (Code 4004).

…

8. If any of the brought forward amounts differs from the corresponding carried forward amounts in the previous *return*, the reason must be stated in a supplementary note as specified in paragraph 7 of Appendix 9.1 (Code 4001).

9. If the bases of conversion adopted in respect of foreign currency for income and expenditure have not already been stated in a note to Form 16, the bases should be stated in a supplementary note as specified in paragraph 5(2) of Appendix 9.1 (Code 4005).

10. Where an *insurer* maintains more than one *long-term insurance fund*, the principles and methods applied to apportioning the investment income, the increase or decrease in the value of assets brought into account, expenses and taxation between the different funds must be stated in a supplementary note as specified in paragraph 4(1) of Appendix 9.3(Code 4006).

11. Where arrangements have been in force during the *financial year* for the provision either by or to the *insurer* of management services, this fact must be stated in a supplementary note (Code 4008) together with the name of the other party (to whom or from whom such services were provided or received) - see paragraph 5 of **Appendix 9.3**. This statement is only needed where a substantial part of the day-to-day administration of an *insurer* is undertaken by another company or vice versa. Note that where the arrangement is between two *insurers*, the directors will need to consider very carefully the form of their certificate under **Appendix 9.6**, Part I paragraph 4(e).

12. Details of any *material connected-party transactions* as required under rule 9.39 must be stated in a supplementary note (Code 4009).

…

Instructions for completion of Form 43

1. The basis on which the assets have been valued must be stated in a supplementary note (Code 4301).

2. 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 each be stated in a supplementary note (Code 4302). 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 practice, and

(ii) such set off results (in whole or in part) from the closing out of obligations under a contract.

3. 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 (Code 4303).

…

Instructions for completion of Form 44

…

2. 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. Particulars of such items must be specified in a supplementary note (Code 4402).

…

4. If any of the brought forward amounts differs from the corresponding carried forward amounts in the previous *return* the reason must be stated in a supplementary note as specified in paragraph 7 of **Appendix 9.1** (Code 4401).

…

…

APPENDIX 9.4 (rule 9.31)

ABSTRACT OF VALUATION REPORT ~~PREPARED BY APPOINTED ACTUARY~~ (FORMS 46 to 60)

…

(c) references to **Form 57** are to either of the versions of that Form set out in this Appendix and an *insurer* is free to use either version; and

~~(c)~~ (d) boxes marked 'UK/OS' must be completed by the insertion of 'UK' for 'UK contracts' and 'OS' for 'overseas contracts'.

. . .

3. A statement that the valuation has been made in conformity with *PRU* 7.3.10R ~~rule 5.6~~ or, where this was not the case, such qualification, amplification or explanation as necessary.

. . .

6. (1) The general principles and methods adopted in the valuation, including specific reference to the following –

. . .

(b) the method by which due regard has been given to the duty to treat *customers* fairly ~~the reasonable expectations of *policy holders*~~, as required by *PRU* 7.3.10 R(6)~~rule 5.6~~, and by which account has been taken of the custom and practice of the *insurer* 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 *PRU* 7.3.10R(5) ~~rule 5.7(6)~~;

(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 *PRU* 7.3.43R ~~rule 5.10~~;

(d) whether any negative reserves arose and the steps taken to ensure that no *contract of insurance* was treated as an asset, as required by *PRU* 7.3.24R ~~rule 5.15~~;

. . .

7. …

~~(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 terms of the assets held in determining the amount of the *long-term insurance business liabilities* in accordance with rule 5.17 identifying that scenario which produces the most onerous requirement (whether or not a reserve is required).~~

~~(7) The amount of any reserve made pursuant to rule 5.17(a), 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 required), the amount of any reserve made pursuant to rule 5.17(b), 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 insurance business 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**.~~

(6) A statement of the most onerous scenario under *PRU* 4.2.16R for assets invested in the *United Kingdom* and other assets that fall under *PRU* 4.2.16R for the purposes of calculating the resilience capital requirement in *PRU* 4.2.10R.

(7) A statement of the most onerous scenario under *PRU* 4.2.23R for each significant territory in which assets are invested outside the *United Kingdom* for the purposes of calculating the resilience capital requirement in *PRU* 4.2.10R.

(8) In respect of the scenarios described under (6) and (7) which produce the most onerous requirement (whether or not a resilience capital requirement is required),

(a) the amount of the *resilience capital requirement* if such a requirement arises,

(b) the change in the aggregate amount of the *long-term insurance liabilities*, and

(c) 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.

…

8. In respect of non-linked contracts –

. . .

(d) where, in valuing contracts falling within the circumstances described in *PRU* 7.3.38R ~~rule 5.9(1)~~, 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 *PRU* 7.3.24R to *PRU* 7.3.91G ~~rules 5.8 to 5.17~~,

. . .

9. For each category of linked contract –

. . .

(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 *PRU* 7.3.50R ~~rule 5.13(1)~~.

. . .

12. . . .

(4) In this paragraph -

(a) **financing arrangement** means any contract entered into by the *insurer*, in respect of *contracts of insurance* of the *insurer*, which has the effect of increasing the ~~amount of assets included at~~ long term *capital resources* in line 13 ~~34~~ of **Form ~~9~~ 2**, ~~representing assets of the *insurer* which are available to meet its *required minimum margin* for *long-term insurance business*,~~ and which includes terms for -

…

20. . . .

(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 paragraph 7 of the instructions for the completion of that form a statement, if such be the case, to the effect that the provisions of *PRU* 4.2.57R ~~rule 7.2~~ have been complied with in accordance with any published guidance in relation to the liabilities so reinsured.

21. . . .

(2) A general description of the method by which the yield on assets other than equity *shares* and land was adjusted in accordance with *PRU* 4.2.41R ~~rule 5.11(7)~~.

(3) For assets which are equity *shares* or land, a description of the categories into which such assets were divided for the purposes of *PRU* 4.2.33R ~~rule 5.11(7)~~, together with the method and basis by which the yield on such assets was adjusted in accordance with that rule.

. . .

23. (1) A statement of the *long term insurance capital requirement* ~~*required minimum margin* for *long-term insurance business*~~ in the form set out in **Form 60** ~~and of the *required margin of solvency* for *Class* IV business and supplementary accident and sickness insurance in the form set out in **Forms 11 and 12,** in accordance with instruction 8 for completion of **Form 60**. When completing Forms 11 and 12, the accounting conventions 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*.~~

. . .

The instructions for the completion of Forms 48, 49, 56 and 57 of Appendix 9.4 (Abstract of valuation report) are amended as follows:

Instructions for completion of Form 48

…

4. The expected income must be the amounts before deduction of tax which would be received in the next *financial year* on the assumption that the assets will be held throughout the year 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 *relevant date* (in particular changes of the type ~~(a), (b), (c) or (d) denoted in rule 5.11(5)~~(1), (2), (3), (4), (5) and (6) in *PRU* 4.2.33R). The expected income shown in this Form must be that determined before any adjustments considered necessary because of ~~rule 5.11(7)~~*PRU* 4.2.41R and *PRU* 4.2.44R.

…

7. 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 10 and 11, the yields to be inserted in column 3 for other categories of asset must be the running yields determined in accordance with ~~rules 5.11(3) to (6A)~~*PRU* 4.2.33R to *PRU* 4.3.34R before any allowance for tax required by *PRU* 4.2.29R. The entry at 48.29.3 must be the weighted average of the yields in column 3, 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.

8. Where the yield in column 3 for a type of asset shown in line 17, 18 or 19 above (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 ~~rule 5.11(6)~~*PRU* 4.2.34R(2) before any allowance for tax required by *PRU* 4.2.29R, then the latter yield figure must be shown in a supplementary note. 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.

….

10. To the extent that ~~rule 5.11(5A)~~ *PRU* 4.2.34R (2) 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 ~~rule 5.11(5)~~ *PRU* 4.2.33R and *PRU* 4.2.34R(1) will apply, before any allowance for tax required by *PRU* 4.2.29R) 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.

11. 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 ~~rule 5.11~~*PRU* 4.2.28R, ~~rules 5.11(5) and (5A)~~ *PRU* 4.2.33R and *PRU* 4.2.34R 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.

…

Instructions for completion of Form 49

…

2. The gross redemption yield in columns 2 and 5 for each asset must be calculated as in ~~rule 5.11(3), (4) and (6~~) *PRU* 4.2.34R(2) before any allowance for tax required by *PRU* 4.2.29R, leaving out of account any adjustment considered necessary because of ~~rule 5.11(7)~~ *PRU* 4.2.41R and *PRU* 4.2.46R. 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.

…

Instructions for completion of Form 56

...

7. Any .provision for ~~adverse changes~~ "reasonably foreseeable adverse variations" must be determined in accordance with ~~rule 5.3~~ *PRU* 4.3.17R(3) and shown in a supplementary note.

…

Instructions for completion of Form 57

...

5. Separate Forms must be prepared for each separate asset mix determined by the notional allocation of assets to contracts ~~rate of interest used in the valuation~~ ~~in pursuance of rule 5.11(12)~~ and may include all contracts valued at the same rate, subject to 2 and 3. Contracts valued at a lower rate of interest but subject to the same apportionment of assets may also be included as long as the rationale for such inclusion is given in a supplementary note. Each of the valuation rates of interest used must be itemised against the heading "Valuation rate(s) of interest". The highest valuation rate of interest used must be shown in line 31 or 32 as appropriate and in the code box headed "Valuation rate of interest".

…

8. 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 ~~rules 5.11 (3) to (6)~~ *PRU* 4.2.34R before any allowance for tax required by *PRU* 4.2.29R, taking account of any adjustment considered necessary because of ~~rule 5.11(7)~~*PRU* 4.2.41R

and *PRU* 4.2.46R. 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.

…

Alternative version of Form 57 of Appendix 9.4 (Abstract of valuation report) is inserted as follows:

Form 57

Long-term insurance business – analysis of valuation interest rate

Name of insurer
Financial year ended
Category of surplus

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of surplus
R57						£000	

Product group	Net mathematical reserves	Net valuation interest rate	Gross valuation interest rate	Risk adjusted yield on matching assets
1	2	3	4	5
Total		n/a	n/a	n/a

Instructions for completion of Form 57

1. This Form must be completed for each separate fund or part of a fund for which a surplus is determined where *mathematical reserves* for non-linked business exceed £100m. The name of the fund or part of a fund is to be shown against the heading "Category of surplus". The corresponding code box must contain the code numbers consistent with Forms 51-54.
2. Separate lines are required for UK and overseas liabilities, for life assurance and annuity business, pension business, permanent health business and other business and for with-profits and non-profit business.
3. Separate lines are required for each separate asset mix determined by the notional allocation of assets to contracts.
4. Separate lines are required for each valuation interest rate.
5. The product group in column 1 must be a narrative description of the products included in the line sufficient to give an easy cross reference to Forms 51-54, e.g. 'UK L&GA WP Form 51 assurances'.
6. The *mathematical reserves* in column 2 must include any increase in reserves resulting from the bonus declaration for the year and must be net of *reinsurance ceded*.
7. Up to 10% of the total relevant liabilities for the fund may be shown in a line labelled 'Misc' in column 1. In this case columns 3 and 4 must be 'n/a'. The relevant liabilities are the total *mathematical reserves* including cost of bonus plus any deposit back, less property linked unit liabilities and index linked investment liabilities.
8. The risk adjusted yield in column 5 must allow for the adjustments from *PRU* 4.2.41R.

…

Form 60 of Appendix 9.4 (Abstract of valuation report) is replaced as follows:

Form 60

Long term insurance capital requirement

Name of insurer
Global business / UK branch / EEA branch
Financial year ended

	Company registration number	GL/ UK/ CM	day	month	year	units
R60						£000

		LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
		1	2	3	4	5	6
Insurance death risk capital component							
Classes I, II and IX	11	0.1%					
Classes I, II and IX	12	0.15%					
Classes I, II and IX	13	0.3%					
Classes III, VII and VIII	14	0.3%					
Total	15						
Insurance health risk capital component							
Class IV and supplementary classes 1 and 2	21						
Insurance expense risk capital component							
Classes I, II and IX	31	1%					
Classes III, VII and VIII (investment risk)	32	1%					
Classes III, VII and VIII (expenses fixed 5 yrs +)	33	1%					
Classes III, VII and VIII (other)	34	25%					
Class IV	35	1%					
Class V	36	1%					
Class VI	37	1%					
Total	38						
Insurance market risk capital component							
Classes I, II and IX	41	3%					
Classes III, VII and VIII (investment risk)	42	3%					
Classes III, VII and VIII (expenses fixed 5 yrs +)	43	0%					
Classes III, VII and VIII (other)	44	0%					
Class IV	45	3%					
Class V	46	0%					
Class VI	47	3%					
Total	48						
Long term insurance capital requirement	51						

Instructions for completion of Form 60

1. The *insurance death risk capital component* in lines 11-14 column 5 is based on capital at risk for those contracts where it is not negative. Capital at risk is the benefit payable as a result of death less the *mathematical reserves* after distribution of surplus. Business in classes I, II and IX must be split between lines 11, 12 and 13 in accordance with *PRU* 7.2.82R. Line 11 is for temporary insurance on death where the original term of the contract is 3 years or less or for a *pure reinsurer*. Line 12 is for temporary insurance where the original term is 5 years or less but more than 3 years. Line 13 is for other *class* I, II or IX business. For a *pure reinsurer* the factor of 0.3% in column 1 of line 14 should be replaced by 0.1%.

2. In lines 11-14 columns 2 and 3 are the gross and net capital at risk in accordance with *PRU* 7.2.83R. For lines 11-13 the reinsurance factor is calculated in aggregate, so column 4 is the sum of lines 11-13 column 3 divided by the sum of lines 11-13 column 2, subject to a minimum of 0.5 in accordance with *PRU* 7.2.81R. For line 14 column 4 is column 3 divided by column 2, subject to a minimum of 0.5 in accordance with *PRU* 7.2.81R. Column 5 is column 1 x column 2 x column 4.

3. The *insurance health risk capital component* in line 21 column 5 must be equal to the entry at line 43 in Form 12 for *long-term insurance business*.

4. For the purpose of calculating the *insurance expense risk capital component* and the *insurance market risk capital component* linked contracts should be allocated to:
   - lines 32 and 42 where the *firm* bears an investment risk,
   - lines 33 and 43 where the *firm* does not bear an investment risk but where the allocation to cover *management expenses* is fixed for a period exceeding 5 years from the commencement of the contract, and
   - lines 34 and 44, otherwise.

5. The *insurance expense risk capital component* for linked contracts where the *firm* bears no investment risk and the allocation to cover *management expenses* does not have a fixed upper limit for a period exceeding 5 years from the commencement of the contract in line 34 is 25% of net *administrative expenses* in accordance with *PRU* 7.2.88R(1).

6. The *insurance expense risk capital component* for *class V* in line 36 column 5 is 1% of the assets of the tontine in accordance with *PRU* 7.2.88R(2).

7. The *insurance expense risk capital component* for other business in lines 31, 32, 33, 35 and 37 column 5 is 1% of adjusted *mathematical reserves* after distribution of surplus in accordance with *PRU* 7.2.88R(3). Column 4 is column 3 divided by column 2, subject to a minimum of 85% (50% for a pure reinsurer) in accordance with *PRU* 7.2.90R. Column 5 is column 1 x column 2 x column 4.

8. The *insurance market risk capital component* in lines 43 and 44 column 5 for class III, VII and VIII contracts where the *firm* does not bear any investment risk and in line 45 for class V contracts is nil in accordance with *PRU* 7.2.89R.

9. The *insurance market risk capital component* in line 41, 42, 45 and 47 column 5 is 3% of adjusted *mathematical reserves* after distribution of surplus in accordance with *PRU* 7.2.89R. Column 4 is column 3 divided by column 2 subject to a minimum of 85% (50% for a pure reinsurer) in accordance with *PRU* 7.2.90R. Column 5 is column 1 x column 2 x column 4.

10. The *long term insurance capital requirement* in line 51 column 5 is the sum of column 5 in lines 15, 21, 38 and 48.

11. For *financial years* starting before 1 January 2005 lines 11 to 48 of column 6 must be blank.

Appendix 9.4A is inserted as follows:

APPENDIX 9.4A (rule 9.31(b))

ABSTRACT OF VALUATION REPORT FOR REALISTIC VALUATION

The following information must be provided in the abstract of the report required under rule 9.31(b), the answers being numbered to accord with the numbers of the corresponding paragraphs of this Appendix. For the purposes of this Appendix, the "report period" means the period from the date to which the previous calculation of the *with-profits insurance capital component* under rule 9.4(2)(c) related to the 'valuation date' (as defined in 1).

Introduction

1. (1) The date to which the actuarial investigation relates, namely, the **valuation date**.

(2) The date of the previous valuation.

(3) The dates of any interim valuations carried out since the previous 'valuation date'.

Assets

2. (1) For each *with-profits fund* in which any *non-profit insurance contracts* are written, a table of the economic assumptions used to determine the value of future profits (or losses) on those contracts, showing the economic assumptions used at the end of the *financial year in question*, and used at the end of the *preceding financial year*.

(2) For each *with-profits fund* in respect of which the *realistic value of the assets* includes an amount determined under *PRU* 7.4.33R(2), a table of the economic assumptions used to determine any additional amount by reference to the value of future profits (or losses) on *non-profit insurance contracts* according to *PRU* 7.4.33R(3)(b)(iii).

(3) For each *with-profits fund* in respect of which an asset not exceeding 50 % of the present value of future profits arising from insurance contracts written outside the *with-profits funds* is included in the relevant assets for the purpose of *PRU* 7.4.43R in accordance with *PRU* 7.4.45R(2)(c) and *PRU* 7.4.45R(5), a table of the economic assumptions used to determine that present value.

(4) Where the valuation of the future profits (or losses) on *non-profit insurance contracts* in (1) or of any additional amount in (2) or of any present value in

(3) involves more than one set of economic assumptions, (for example, different sets of economic assumptions are used for different *with-profits funds*), each different set of economic assumptions must be shown.

(5) The separate disclosure of economic assumptions used to determine the valuation of future profits (or losses) on *non-profit insurance contracts* in (1) or of any additional amount in (2) or of any present value in (3) is not required to the extent the total of the values derived by reference to assumptions which are not disclosed is less than £20 million.

With-Profits Benefits Reserve Liabilities

3. (1) For each *with-profits fund*, a table of the retrospective methods (see *PRU* 7.4.119R) and/or prospective methods (see *PRU* 7.4.128R) used to calculate the *with-profits benefits reserve* for that fund, showing:

(a) the types of product or classes of *with-profits insurance contracts* to which each of the retrospective methods and/or prospective methods applies;

(b) for each type of product or class of *with-profits insurance contracts* and method, the corresponding amounts of the *with-profits benefits reserve* and the *future policy related liabilities*; and

(c) the aggregate amount of the *with-profits benefits reserve* and the *future policy related liabilities* for those types of product or classes of *with-profits insurance contracts* which are not required to be disclosed separately (in accordance with 3(3)).

(2) If the total of the amounts of the *with-profits benefits reserve* and *future policy related liabilities* shown in the table under (1) do not correspond to the respective amounts shown at lines 31 and 49 of the appropriate **Form 19**, an explanation and reconciliation must be provided.

(3) The separate disclosure of the retrospective methods and prospective methods used to calculate the *with-profits benefits reserve* of a *with-profits fund* is not required for types of products and/or classes of *with-profits insurance contracts* to the extent the aggregate amount of the *realistic value of liabilities* for all types of products and/or classes of *with-profits insurance contracts* in respect of which the valuation methods are not disclosed is less than the higher of 5% of the *realistic value of liabilities* for that fund and £20 million.

(4) References in paragraph 3 of this Appendix to types of product and/or classes should be taken as meaning the constituent elements of a division of the portfolio of *with-profits insurance contracts* by grouping those contracts having regard to materially different guarantees and options such as pension contracts with minimum bonuses and annuity rate options, pension

contracts with minimum bonuses, pension contracts with no minimum bonuses, life bonds issued with no Market Value Reduction / Market Value Adjustment type clauses (MVR/MVAs), life bonds with spot MVR/MVA free dates (dates on which the MVR/MVAs do not apply), life bonds with no MVR/MVA free dates, etc.. The extent of disclosure should be sufficient to permit an identification of material groupings of contracts which offer significant variance in terms of the nature of benefits provided to *policyholders*.

With-profits benefits reserve – Retrospective method

4. (1) For each *with-profits fund*, a table of the retrospective methods used to calculate the *with-profits benefits reserve* showing for each retrospective method:

(a) the proportion of the *with-profits benefit reserve* calculated using that retrospective method for which contracts have been valued on an individual basis;

(b) the proportion of the *with-profits benefit reserve* calculated using that retrospective method for which contracts have been valued on a grouped basis; and

(c) in relation to any *with-profits insurance contracts* that have been grouped:

(i) a statement of the basis used to group contracts;

(iii) the number of individual contracts and the number of model points used to represent them; and

(iii) the nature of the validations made to ensure that significant attributes of the contract groupings have not been lost.

(2) For each *with-profits fund*:

(a) a description of any significant changes to the valuation method for any types of product or classes of *with-profits insurance contracts* written in that fund compared to the previous valuation; and

(b) where the changes in (a) have resulted in any types of product or classes of *with-profits insurance contracts* written in that fund being valued using approaches more approximate than used for the previous valuation, a statement of the types of product or classes of *with-profits insurance contracts* affected.

(3) For each *with-profits fund*, a description of the basis of allocating expenses to that fund during the *financial year in question* identifying:

(a) the date of the previous expense investigation;

(b) the frequency of expense investigations;

(c) a table of the total expenses allocated to the *with-profits benefits reserve* during the *financial year in question* showing:

   (i) the nature and amount of expenses identified as initial expenses;

   (ii) the nature and amount of expenses identified as maintenance expenses;

   (iii) how expenses are charged to the *with-profits benefits reserve* in respect of individual contracts (for example, by way of an average expense charge deducted from all contracts); and

   (iv) the nature and amount of any expenses charged other than to the *with-profits benefits reserve*.

(4) For each *with-profits fund*, a description of the nature and amount of any significant charges (for example for the costs of guarantees or the use of capital) deducted from the *with-profits benefits reserve* during the *financial year in question* and a comparison to the charges in the *preceding financial year*.

(5) For each *with-profits fund*, a description of the nature and amount of any charges deducted from that fund for non-insurance risk (for example, charges deducted from investment only accumulating with-profit business).

(6) For each *with-profits fund*, a statement of the average (expressed as a percentage) of the ratio of A to B for each of the three *preceding financial years* where:

A is the total *claims* paid during the financial year on *with-profits insurance contracts* written in that fund; and

B is the sum of:

   (i) *with-profits benefits reserve* for those *claims*; plus

   (ii) any past miscellaneous surplus attributed to the *with-profits benefits reserve* in respect of those *claims*; less

(iii) any past miscellaneous deficit attributed to the *with-profits benefits reserve* in respect of those *claims*;

Where there has been a change in procedures such that the ratio of A to B would not be directly comparable with that ratio disclosed at the end of the *preceding financial year*, details should be disclosed as to the change in procedures.

(7) For each *with-profits fund*, the investment return before tax and expenses allocated to the *with-profits benefits reserve* in respect of the *financial year in question*. If the investment return allocated to the *with-profits benefits reserve* in respect of any types of product or classes of *with-profits insurance contracts* differs materially from that allocated to the *with-profits benefits reserve* in respect of other types of product or classes of *with-profits insurance contracts*, other than because of tax, an explanation and reconciliation must be provided.

With-profits benefits reserve – Prospective method

5. (1) For each *with-profits fund*, a table of the key assumptions used in the prospective method(s) of calculating the *with-profits benefits reserve* showing:

(a) the discount rate, together with an explanation of any difference between this rate and the risk free rates denoted "r" in the table required by 6(4)(a)(iii) below;

(b) the investment returns and risk adjustments made to assets (categorised as in **Form 48)**;

(c) expense inflation;

(d) future assumed *annual* and *final bonus* rates for major types of products and/or classes of *with-profits insurance contracts*;

(e) assumptions as to future expenses and future charges for expenses for major types of products and/or classes of *with-profits insurance contracts*; and

(f) any significant persistency assumptions at quinquennial durations.

(2) Where any of the prospective methods in (1) involves more than one set of key assumptions, each different set of key assumptions must be shown.

Costs of guarantees, options and smoothing

6. (1) For each *with-profits fund*, where the costs of guarantees, options and smoothing do not exceed the lesser of £50m and 0.5% of the total *realistic value of liabilities*, disclosure of the valuation methods in accordance with the following sub-paragraphs is not required.

(2) For each *with-profits fund*, a table of the valuation methods used to calculate the costs of guarantees, options and smoothing showing:

(a) the types of product and/or classes of *with-profits insurance contracts* to which each valuation method applies;

(b) for each valuation method and each type of product and/or class of *with-profits insurance contract*:

(i) the proportion, measured by reference to the underlying asset shares, of the *with-profits insurance contracts* being valued for which costs have been valued on an individual basis;

(ii) the proportion, measured by reference to the underlying asset shares, of the *with-profits insurance contracts* being valued for which costs have been valued on a grouped basis; and

(iii) in relation to any *with-profits insurance contracts* that have been grouped,

- a statement of the basis used to group contracts;
- the number of individual contracts and the number of model points used to represent them; and
- the nature of the validations made to ensure that significant attributes of the contract groupings have not been lost;

(c) if applicable to the disclosures in (a) and (b), a description of any significant approximations in method used for any residual types of product or classes of *with-profits insurance contracts*.

(3) A description of any significant changes to the valuation methods for valuing the costs of guarantees, options or smoothing since the previous valuation.

(4) For each of the valuation methods under (2)(b), the following information must be disclosed:

(a) for each of the costs of guarantees, options and smoothing which have been valued using a full stochastic approach:

(i) the nature of the guarantee, option or smoothing being valued, including a description of the extent to which the guarantee or option is in or out of the money at the valuation date;

(ii) a description of the nature of the asset model(s), including the choice of parameters for each model (including the assumed volatility of assets both short term and long term) and any assumed correlations between asset classes and/or between asset classes and economic indicators (such as inflation), and a justification for these assumptions;

(iii) completion of the following table showing the annualised compound equivalent of the risk free rate(s) assumed for each duration (n) and values derived from the asset model(s) of specified assets/options as shown in the table:

		Asset type (all UK assets)	**K=0.75**				**K=1**				**K=1.5**			
	n		5	15	25	35	5	15	25	35	5	15	25	35
	r	Annualised compound equivalent of the risk free rate assumed for the period. (to two decimal places)					x	x	x	x	x	x	x	x
1		Risk-free zero coupon bond					x	x	x	x	x	x	x	x
2		FTSE All Share Index (p=1)												
3		FTSE All Share Index (p=0.8)												
4		Property (p=1)												
5		Property (p=0.8)												
6		15 year risk free zero coupon bonds (p=1)												

7		15 year risk free zero coupon bonds (p=0.8)												
8		15 year corporate bonds (p=1)												
9		15 year corporate bonds (p=0.8)												
10		Portfolio of 65% FTSE All Share and 35% property (p=1)												
11		Portfolio of 65% FTSE All Share and 35% property (p=0.8)												
12		Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)												
13		Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)												
14		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)												
15		Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=0.8)												
			L=15				**L=20**				**L=25**			
16		Receiver swaptions												

Notes to Table

Row 1 should be completed showing the value of cash payments of £1,000,000 due n years after the valuation date.

Rows 2 to 15 inclusive should be completed for the appropriate asset classes showing the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date with strike price of K*£1,000,000*(1+r*p)^n.

All references to 15 year bonds mean rolling bonds traded to maintain the 15 year duration at all future dates. The corporate bonds should be assumed to be rolling AA rated zero coupon bonds.

Row 16 should be completed showing the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years. The values should be expressed as a percentage of nominal.

In carrying out the calculations required to complete the table above firms should assume, where appropriate, that the underlying asset portfolios are continuously rebalanced to the stated proportions. The property put options should be assumed to relate to a well diversified portfolio of *United Kingdom* commercial property.

A zero trend growth in property prices should be assumed where this is relevant.

In each case the options should be valued with reinvestment of any dividend income into the FTSE All Share index and reinvestment of any rental or other property income into *United Kingdom* property.

Tax should be ignored in all calculations.

All options should be assumed to be European-style.

A *firm* may consider that its model does not need to be calibrated to produce a reasonable value for a particular entry in the table because that entry is insignificant to the valuation of its assets and liabilities. In such circumstances the *firm* may leave an entry in the table blank, but must give an explanation as a note to the table.

(iv) a statement of the initial equity and property rental yields assumed for the *United Kingdom* and each significant territory as applicable;

(v) for each significant territory other than the *United Kingdom* a statement of the entries that would be appropriate (for K=1 only) for the risk free rate and lines 1 and 2;

(vi) a table showing the outstanding durations of significant guarantees within material types of products and/or classes of *with-profits insurance contracts* together with the details of the fit of the asset model(s) to specimen relevant market-traded instruments at these durations;

(vii) a statement of the nature of the validations of the asset model(s) by projecting future income, gains and losses on asset values and comparing the net present value of these amounts to the current asset values;

(viii) a statement of the number of projections of assets and liabilities carried out and the nature of the validations to ensure reasonable convergence of the model results;

(b) for each of the costs of guarantees, options and smoothing which have been valued using the market costs of hedging:

(i) a description of the method and assumptions used to determine the option points and amounts implied by the underlying guarantee or option or smoothing;

(ii) a description of the method and assumptions used to value the implied options and hence to determine the costs of the underlying guarantee, option or smoothing (including the assumed volatility of assets both short term and long term and any assumed correlations between asset classes and/or between asset classes and economic indicators (such as inflation) and also including a description as to how those assumptions relate to available market traded instruments and have been assumed to apply in respect of non-available instruments);

(iii) completion of a table as at 6(4)(a)(iii) above showing the risk free rate(s) assumed and values derived from the asset model(s) of assets/options as shown in the table;

(iv) a statement of the equity and property rental yields assumed for the *United Kingdom* and each significant territory as applicable;

(v) a table showing the outstanding durations of significant guarantees within material types of products and/or classes of *with-profits insurance contracts*;

(c) for each of the costs of guarantees, options and smoothing which have been valued using a series of deterministic projections using attributed probabilities:

(i) a description of the number of projections of assets and liabilities carried out, the attributed probability to each projection and the range of key assumptions underlying the projections of assets and liabilities;

(ii) a description of how the range of projections was selected and how the attributed probabilities were determined;

(iii) completion of a table as at 6(4)(a)(iii) above showing the risk free rate(s) assumed and values derived from the asset model(s) of assets/options as shown in the table;

(iv) a table showing the outstanding durations of significant guarantees within material types of products and/or classes of *with-profits insurance contracts*.

(5) Where management actions have been assumed in the projection of assets and liabilities used to determine the costs in (4) (a), (b) and (c):

(a) a description of the nature of the management actions assumed in the projection of assets and liabilities; and

(b) a table of the *firm's* best estimates as to the future proportions of the assets backing the *with-profits benefits reserve* which would consist of equities (whether UK or non-UK) and as to future bonus rates, in each case as at the end of the *financial year in question*, in 5 years time and in 10 years time, making the three sets of assumptions described in this paragraph as to annual investment returns over the periods in question. The table must show, in addition to the specimen equity backing ratios (for the fund), *annual bonus* rates on significant accumulating with-profits business (for each of life and pensions business separately). Calculations should be made assuming that the annual investment return on all assets over the period in question is (i) based on forward rates derived from the risk free interest rate curve as calibrated at the valuation date (ii) based on forward rates derived from the risk free interest rate curve increased across the period by 17.5 % of the long-term gilt yield and (iii) based on forward rates derived from the risk free interest rate curve reduced across the period by 17.5 % of the long-term gilt yield. The effect of any significant assumed equity *derivative contracts* or contracts having the effect of *derivative contracts* on the values disclosed in the table should be described by note. The long-term gilt yield is as defined in *PRU* 7.4.11R.

(6) For material types of product or classes (as identified in 3 above) a statement of the persistency assumptions used to determine the costs in (4) (a), (b) and (c), and where appropriate the assumed take-up rates of guaranteed annuity

options and the rates of annuitant mortality assumed.

(7) A statement of the assumptions made, regarding the foreseeable actions that would be taken by *policyholders*, in the projection of assets and liabilities in (4) (a), (b) and (c).

Financing costs

7. Where financing arrangements exist in connection with any *with-profits fund(s)*, a statement of the type of financing, the sources available for repayment of capital and interest, the extent to which repayments are subordinated to *policyholders'* interests, the face amount outstanding, the rate of interest payable, the level of fees payable, the expected amount to be repaid and the expected time period for such repayment (or, in the case of *reinsurance* arrangements, recapture).

Other long-term insurance liabilities

8. For each *with-profits fund*, a statement of the nature and amount of *long-term insurance liabilities* which have been included within the amounts of 'any other liabilities related to regulatory duty to treat customers fairly' and 'any other long-term insurance liabilities' shown at lines 46 and 47 of **Form 19**, including disclosure of any value attributed to future tax relief.

Realistic current liabilities

9. A statement of the nature and amount of current liabilities which have been included within the amount of the *realistic current liabilities* shown at line 51 of **Form 19** together with a reconciliation to the amount of the *regulatory current liabilities*.

Risk capital margin

10. For the calculation of the *risk capital margin* for each *with-profits fund*:

(a) a statement of the amount of the *risk capital margin* and of information relating to the individual scenarios in *PRU* 7.4.44R which comprise the most adverse scenario for the purposes of calculating that margin in accordance with *PRU* 7.4.43R, including:

(i) the percentage change assumed in accordance with *PRU* 7.4.68R for each of the market values of equities and real estate for the purpose of the *market risk* scenario for *United Kingdom* assets and each significant territory in *PRU* 7.4.62R(1)(a), and a statement as to whether a rise or fall was the most onerous in each case;

(ii) the nominal change in yields assumed in accordance with *PRU* 7.4.68R for fixed interest securities for the purpose of the *market risk* scenario for *United Kingdom* assets and each significant territory in *PRU* 7.4.62R(1) together with a statement of the percentage change in and level of the long-term gilt yield or nearest equivalent assumed in each case and a statement as to whether a fall or rise in yields is the more onerous in each case);

(iii) the average change in spread for bonds (weighted by value) and the total percentage change in asset value separately for (a) bonds, (b) debts, (c) *reinsurance* (d) analogous non-*reinsurance* financing agreements and (e) other assets (by reference to *PRU* 7.4.78R), where the total percentage change is, in each case, calculated as the overall percentage change that results from applying the credit risk scenario to the actual assets of each type held by a *firm*;

(iv) the overall percentage change in the *realistic value of liabilities* that results from applying the persistency risk scenario according to *PRU* 7.4.100R, that is, the impact of the persistency risk scenario assuming the market and credit risk stress scenarios have occurred; and

(v) to the extent any change in asset value in (iii) is not materially independent of the change in liability values in (iv), a description of the approach to deriving the disclosed changes in asset and liability values;

(b) a statement of the nature of any management actions assumed in the *risk capital margin* calculation that are in addition to those set out in 6(5)(a) above; and any material changes to other assumptions;

(c) (i) a statement of the nature of the assets (categorised as in **Form 48**) and location of assets held to cover the *risk capital margin*;

(ii) if any of the assets to cover the *risk capital margin* are located outside of the *with-profits fund,* a statement as to the way the *firm* would intend to make such assets available to the *with-profits fund* should the need arise.

Tax

11. A statement of the *firm's* treatment of tax included on assets backing (i) the *with-profits benefits reserve(s)*, (ii) any *future policy related liabilities* and (iii)

any *realistic current liabilities*, including any simplifying assumptions.

Derivatives

12. A full description of any major positions in relation to *derivative contracts* or contracts having the effect of *derivative contracts* held by the *with-profits fund* or located outside the *with-profits fund* to cover the *risk capital margin* in part or in full at the valuation date.

Analysis of working capital

13. For each *with-profits fund*, a reconciliation of the significant movements in the working capital of the *with-profits fund* from that shown at line 68 of **Form 19** at the end of the *preceding financial year* and that same entry shown for the *financial year in question*. Such movements must at least include investment return, tax, significant costs (of expenses, guarantees or smoothing) and enhancements or charges to retrospective reserve(s).

Optional disclosure

14. At the option of the *firm*, a statement may be made for each *with-profits fund* of the amount of the *realistic value of liabilities* which relates to contractual obligations to *policyholders*, with a description of the approach taken to distinguishing contractual and non-contractual obligations to *policyholders*.

Instructions to the report

Adhere to numbering above, enter ‘not applicable’ or ‘de minimis’ for sections where there is nil or de minimis data.

APPENDIX 9.5 (rule 9.32)

GENERAL INSURANCE BUSINESS
ADDITIONAL INFORMATION ON BUSINESS CEDED

For the purposes of rule 9.32~~5~~, an *insurer* which carries on *general insurance business* must, in respect of the *financial year in question*, prepare a statement of the following information.

…

APPENDIX 9.6 (rules 9.34 and 9.35)

Appendix 9.6 is amended as follows:
(i) paragraphs 1 to 4 are replaced by the new paragraphs 1 to 4 set out below;
(ii) paragraphs 5 to 11 and the associated headings are deleted; and
(iii) otherwise as shown using underlining and strike through.

CERTIFICATE~~S~~ BY DIRECTORS ~~AND ACTUARY~~ AND REPORT~~S~~ OF THE AUDITORS

Part I

Certificate by directors ~~etc.~~

(1) Subject to 3, the certificate required by rule 9.34 must state -

(a) that the *return* has been properly prepared in accordance with the requirements in *IPRU(INS)* and *PRU*; and

(b) that the *directors* are satisfied that:

(i) throughout the *financial year in question*, the *insurer* has complied in all material respects with the requirements in *SYSC* and *PRIN* as well as the provisions of *IPRU(INS)* and *PRU*; and

(ii) it is reasonable to believe that the *insurer* has continued so to comply subsequently, and will continue so to comply in future.

(2) An *insurer* does not comply in all material respects with the requirements specified in (1)(b) if it commits a breach of any of those requirements which is significant, having regard to the potential financial loss to *policyholders* or to the *insurer*, frequency of the breach, implications for the *insurer's* systems and controls and if there were any delays in identifying or rectifying the breach.

2. Subject to 3, if the *insurer* carries on *long-term insurance business*, the certificate required by rule 9.34 must also state that -

(a) in the *directors'* opinion, *premiums* for contracts entered into during the *financial year* and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the *insurer* that are available for the purpose, to enable the *insurer* to meet its obligations in respect of those contracts and, in particular, to establish adequate *mathematical reserves*;

(b) the sum of the *mathematical reserves* and the deposits received from *reinsurers* as shown in **Form 14**, together with any amount specified at line 63 of **Form 14** (being part of the excess of the value of the *admissible assets* representing the *long-term insurance funds* over the amount of those funds shown in **Form 14**), constitute proper provision at the end of the *financial year in question* for the *long-term insurance business liabilities* (including all liabilities arising from *deposit back arrangements*, but excluding other liabilities which had 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 an *actuarial investigation* as at that date into the financial condition of the *long-term insurance business*;

(c) the *with-profits fund* has been managed in accordance with the *Principles and Practices of Financial Management*, as established, maintained and recorded under *COB* 6.10; and

(d) the *directors* have, in preparing the *return*, taken and paid due regard to-

(i) advice in preparing the *return* from every *actuary* appointed by the *insurer* to perform the *actuarial function* in accordance with *SUP* 4.3.13R; and

(ii) if applicable, advice from every *actuary* appointed by the *insurer* to perform the *with-profits actuary function* in accordance with *SUP* 4.3.16R.

3. (1) Where, in the opinion of those signing the certificate, the circumstances are such that any of the statements required by 1 and 2 cannot truthfully be made, the relevant statements must be omitted.

(2) Where, by virtue of (1), any statements have been omitted from the certificate, this fact, and the reasons for omission must be stated in a note to the certificate.

Part ~~III~~ II

Auditor's report

4. The report required by rule 9.35 must, in addition to any statement required under rule 9.35, state:

(a) whether, in the auditor's opinion:

(i) the documents referred to in rules 9.12, 9.13 and 9.14, together with **Forms 40** to **45, 48, 49, 56, 58** and **60** and the statements, analyses and reports annexed pursuant to rules 9.24 to 9.27, 9.29 and 9.31 have been properly prepared in accordance with the *Accounts and Statements Rules* and *PRU*; and

(ii) the methods and assumptions determined by the *insurer* and used to perform the *actuarial investigation* (as set out in the valuation reports) appropriately reflect the requirements of *PRU* 7.3 and *PRU* 7.4.

(b) that, in accordance with rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be audited under rule 9.35(1) contains amounts or information abstracted from the *actuarial investigation* performed pursuant to rule 9.4, the auditor has obtained and paid due regard to advice from a suitably qualified *actuary* who is independent of the *insurer*.

5. [deleted]

6. [deleted]

7. [deleted]

8. [deleted]

9. [deleted]

10. [deleted]

11. [deleted]

12. Where the auditor refers in the report or in any note attached to it to any uncertainty, the report must state whether, in the auditor's opinion, that uncertainty is material to determining whether the *insurer* has available assets in excess of its ~~*required minimum margin*, *required EEA minimum margin* or *required UK minimum margin*, as the case may be.~~ *capital resources requirement*.

…

APPENDIX 9.8 (rule 9.36A)

MARINE MUTUALS: ITEMS TO BE DISREGARDED, DIRECTORS' CERTIFICATES AND AUDITORS REPORTS

. . .

Part II

Directors' certificates

2. Subject to 4, every *return* provided by a *marine mutual* under rule 9.36A must include a certificate signed by the persons required by rule 9.33 to sign the documents to which the certificate relates –

(a) confirming that –

(i) the *return* has been prepared in accordance with the requirements in *IPRU(INS)* and *PRU* ~~*Accounts and Statements Rules*~~,

(ii) ~~proper accounting records have been maintained and adequate information on which to base the *return* has been obtained~~ the *directors* are satisfied that throughout the *financial year in question*, the *marine mutual* has complied in all material respects with the requirements in *SYSC* and *PRIN* as well as the provisions of *IPRU(INS)* and *PRU*, and that it is reasonable to believe that the *marine mutual* has continued so to comply subsequently, and will continue so to comply in future,

~~(iii) appropriate systems and controls have been established and maintained by the *marine mutual* with respect to its transactions and records,~~

~~(iv) the value or amount given for an asset or liability of the *marine mutual* has been determined in accordance with the *Valuation of Assets Rules* and the *Determination of Liabilities Rules*,~~

~~(v) in respect of the *marine mutual's insurance business* not excluded by rule 7.6, throughout the *financial year in question* the *marine mutual* complied with rules 7.1 to 7.5 (currency matching and localisation),~~

~~(vi) the *marine mutual* maintained the *required margin of solvency* throughout the *financial year in question*,~~

(~~v~~iii) each member of the *marine mutual* which is subject to them has accepted those parts of the *marine mutual's* rules which oblige members to pay their share of any supplementary calls for the year and of calls to meet the ~~*required*~~ *minimum capital requirement* ~~*margin*~~ (including any sum needed to make good failure by other members to pay calls made on them), and

(iv~~iii~~) the *marine mutual* is empowered to make supplementary calls on its members which, if met, would produce sufficient assets to meet the ~~*required*~~ *minimum* *capital requirement* ~~*margin*~~; and

…

3. ~~Subject to 4, where the *directors* are satisfied that –~~

~~(a) the systems and controls established and maintained by the *marine mutual* in respect of its *insurance business* complied, at the end of the *financial year in question*, with the relevant guidance in **Guidance Notes P.1** and **P.2** and it is reasonable to believe that those systems and controls continue so to comply and will continue so to comply in future; or~~

~~(b) the *return* has been prepared in accordance with the relevant guidance in **Guidance Note 9.1**,~~

~~it must be so stated in the certificate~~. [deleted]

4. (1) Where, in the opinion of the *directors*, the circumstances are such that any of the matters specified in 2 ~~and 3~~ cannot be confirmed or provided, the relevant statements or information must be omitted.

(2) Where any statements or information have been omitted from the certificate in accordance with (1), this fact, and the reasons for omission, must be explained in a note to the certificate.

Part III

Auditor's reports

5. Every *marine mutual* must procure an auditor's report, pursuant to *SUP*, stating whether, in the auditors' opinion –

(a) the Forms, information and statements required have been properly prepared in accordance with the *Accounts and Statements Rules*; and

(b) where the auditors refer in their report or in any note to any uncertainty, that uncertainty is material to determining whether the *marine mutual* has *available assets* in excess of its *capital resources requirement* ~~*required minimum margin, required EEA minimum margin,* or *required UK minimum margin*, as the case may be; and~~

~~(c) subject to 6, it was or was not reasonable for the persons giving the *directors'* certificate to have made the statements in it~~.

~~6. Where the information or explanations given to the auditors is insufficient to allow them to be able to express an opinion on the reasonableness of the statements made in the *directors'* certificate, the report must include such~~

~~qualification, amplification or explanation as may be appropriate.~~

…

Form M2

Marine mutuals: Statement of ~~solvency~~ assets and liabilities

Name of insurer

Financial year ended

	Company registration number	Period ended day	month	year	Units (See instruction 1)
M2					

		As at the end of the financial year 1	As at the end of the previous financial year 2	Source Form	Line	Column
ASSETS						
Admissible assets	**11**			M3	.	89
Calls approved by the Board but unmade at the end of the financial year	**12**					
Total (11+12)	**19**					
LIABILITIES						
Unexpended contributions and unearned premiums and any additional amounts set aside for unexpired risks, gross of reinsurance and deferred acquisition costs	**21**			See instruction 2		
Gross provision for outstanding claims	**22**			See instruction 3		
Creditors	**23**					
Taxation	**24**					
Other liabilities	**25**			See instruction 4		
Total (21 to 25)	**29**					
~~**REQUIRED MINIMUM MARGIN**~~						
~~**Net admissible assets (19-29)**~~	~~**31**~~					
~~**Calls unapproved by the Board at the end of the financial year**~~	~~**32**~~			~~**See instruction 5**~~		
~~**Available net assets (31+32)**~~	~~**33**~~					
~~**Required minimum margin**~~	~~**34**~~					
~~**Excess (deficiency) of available net assets over the required minimum margin (33-34)**~~	~~**39**~~					

Appendix 9.9 is inserted as follows

Appendix 9.9 **(**rule 9.40 to guidance 9.43)

Group capital adequacy

(Form 95)

This appendix contains guidance as to how the report to be provided under rule 9.40 may be set out .

Form 95

INSURANCE GROUP CAPITAL ADEQUACY (page 1)

Name of reporting insurance firm:	
Name of insurance parent undertaking:	

Calculation of Consolidated Position:

		Limits on capital (see notes)	£'000	
1. TIER 1				
Group core tier one	Sum of column G1 (page 4)			H1
Group perpetual non-cumulative preference shares	Sum of column G2 (page 4)			H2
Group innovative tier one	Sum of column G3 (page 4)			H3
Deductions from tier one	Sum of column C (page 2)			H4
2. Total group tier one capital	= H1 + H2 + H3 – H4	Limits 1, 2 & 3		TT1
3. TIER 2				
Group upper tier two	Sum of column G4 (page 4)			H5
Group lower tier two	Sum of column G5 (page 4)			H6
4. Total group tier two capital	= H5 + H6	Limits 4 & 5		TT2
5.				
6. Group capital resources before deductions	= TT2 + TT2	Limit 6		TCR
Total group capital resources deductions	Sum of column D1 & D2 (page 2)			H7
Group capital resources:	= TCR – H7			GCR
Group capital resources requirement:	Sum of column B (page 2)			GCRR
Group surplus/ (deficit)	= GCR – GCRR			I

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING FORM

INSURANCE GROUP CAPITAL ADEQUACY (page 2)

Name of reporting insurance firm:	
Name of insurance parent undertaking:	

A	A1	A2	B	C	D1	D2
Name of related undertaking	% interest	Type of firm	CRR	Deductions from Tier 1	Inadmissible assets	Ancillary services undertakings deduction
Related undertaking 1						
Related undertaking 2						
Related undertaking 3						
Parent:						

Totals:				

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING FORM

Name of reporting insurance firm:	
Name of insurance parent undertaking:	

A Name of related undertaking	E1 **Group's investment in the capital resources of related undertaking** Core tier 1	E2 Perpetual non-cumulative preference shares	E3 Innovative tier 1	E4 Upper tier 2	E5 Lower tier 2	F1 **Components of the capital resources of related undertakings** Core tier 1	F2 Perpetual non-cumulative preference shares	F3 Innovative tier 1	F4 Upper tier 2	F5 Lower tier 2
Related undertaking 1										
Related undertaking 2										
Related undertaking 3										

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING FORM

INSURANCE GROUP CAPITAL ADEQUACY (page 4)

Name of reporting insurance firm:

Name of insurance parent undertaking:

A Name of related undertaking	G1 **Net Contribution to Group Capital Resources** Core tier 1	G2 Perpetual non-cumulative preference shares	G3 Innovative tier 1	G4 Upper tier 2	G5 Lower tier 2
	=F1-E1	=F2-E2	=F3-E3	=F4-E4	=F5-E5
Related undertaking 1					
Related undertaking 2					
Related undertaking 3					
Parent's Capital Resources (by class of capital)					
Totals					

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING INSTRUCTIONS

Insurance Group Capital Adequacy

Ref	*Instructions*
A (pages 2, 3 & 4)	List the name of each *related undertaking* of the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* (as applicable) which is a *regulated related undertaking* or an *ancillary services undertaking.* Pursuant to *PRU* 8.3.18R to 8.3.22R, several entities may be combined where these are not material in relation to the *insurance group*. The *firm* should list the relevant entities in a note to the return and should be able to demonstrate the contribution of the individual entities to the group calculation.
A1 (page 2)	List the percentage interest in the *regulated related undertaking* listed in A held by the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* (as applicable). For the purposes of calculating the percentage interest in accordance with *PRU* 8.3.28R and 8.2.29R, if the interest is not held directly by the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* but by another member of the *insurance group*, enter the effective percentage interest of the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* in that *undertaking* (e.g. where a *parent* has a 50% holding in a *subsidiary* which in turn has a 50% holding in another *subsidiary*, the ultimate *parent undertaking's* effective percentage interest in the second *subsidiary* is 25% etc.). Where the entity is a *subsidiary* of a *subsidiary* of the *parent undertaking* (etc.), indicate (S) after the effective percentage interest. Such an entity should be treated as a *subsidiary* of the *parent undertaking* and will be included in the calculations in proportion to the *parent undertaking's* effective percentage interest (or in full if there is a capital resources deficit) (see *PRU* 8.3.30R and 8.3.31R).

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING INSTRUCTIONS

Ref	*Instructions*
A2 (page 2)	State if the *related undertaking* listed in A is a *regulated insurance entity, pure reinsurer, insurance undertaking* that is not a *regulated insurance entity*, *insurance holding company, investment firm*, *credit institution, financial institution* which is not either a *credit institution* or *investment firm, financial holding company, asset management company* or *ancillary services undertaking*. For *related undertakings* which are *ancillary services undertakings* entries should only be made in this column and column D2 on page 2.
B (page 2)	State the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking*'s share (i.e multiplied by the percentage in A1) of the *individual capital resources requirement* of the *regulated related undertaking*, or the full amount if there is a capital resources deficit. This is the requirement set out in *PRU* 8.3.34R.
C (page 2)	State the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking's* share (or the full amount if there is a capital resources deficit) of the *regulated related undertaking's* Tier 1 deductions calculated under the *sectoral rules* that apply to it.
D1 (page 2)	State the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking*'s share (or the full amount if there is a capital resources deficit) of any inadmissible assets held by the *regulated related undertaking* (see *PRU* 8.3.60R)
D2 (page 2)	This column should be completed only for *related undertakings* which are *ancillary services undertakings.* The entry is the higher of: the book value of the direct or indirect investment by the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* in the *ancillary services undertaking*; and the *ancillary services undertaking's* notional capital resources requirement (see *PRU* 8.3.62R to 8.3.64R)

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING INSTRUCTIONS

Ref	*Instructions*
E1 E2 E3 E4 E5 (page 3)	The entries in E1 to E5 should be the book value of the investments of all members of the *insurance group* in the *solo capital resources* of each *regulated related undertaking* listed in A (this represents internal group holdings of the *solo capital resources* of each *regulated related undertaking* to be excluded from *group capital resources* under *PRU* 8.3.49R, 8.3.51R, 8.3.54R, 8.3.56R and 8.3.58R). The book value of the group's investment in *core tier one capital resources** should be shown in E1; investments in perpetual non-cumulative *preference shares** should be shown in E2; and investments in *innovative tier 1 capital resources** should be shown in E3. The book value of the group's investment in *tier two capital resources* should be shown in E4 (*upper tier two capital resources**) and E5 *(lower tier two capital resources**). [* these terms should be applied in accordance with *PRU* 8.3.37R to the *undertaking* in question].
F1 F2 F3 F4 F5 (page 3)	The entries in F1 to F5 should be the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking's* share (or the full amount if there is a capital resources deficit) of the components of the *solo capital resources* of the *regulated related undertaking* (see *PRU* 8.3.48R(2), 8.3.50R(2), 8.3.53R(2), 8.3.55R(2) and 8.3.57R(2)).

Ref	*Instructions*
G1 G2 G3 G4 G5 (page 4)	These entries represent the contribution to *group capital resources* of the *regulated related undertaking.* G1 is calculated as the difference between column F1 and E1. (G1 can be positive or negative. A negative figure would principally represent goodwill on acquisition). Similarly G2 is the difference between F2 and E2, G3 is the difference between F3 and E3 etc. (G2, G3, G4 & G5 would normally be positive). The totals of columns GI, G2 and G3 respectively represent the group's *core tier one capital,* perpetual non-cumulative *preference shares* and *innovative tier one capital resources* (see H1 to H3 on page 1). The sum of columns G4 and G5 represent the group's *tier two capital resources* (see H5 and H6).
Parent's capital resources (page 4)	The entries in this line represent the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking's capital resources*, after deduction of the book value of the investments taken together of the individual members of the *insurance group* in those *capital resources*. The deduction excludes any holding by the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* (as applicable) of its own *shares*; such holdings are deducted in calculating the parent's *tier one capital resources*.
H1 H2 H3 H4 (page 1)	H1 to H3 represent the total contribution of the *regulated related undertakings* and the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* to *total group tier one capital*. H4 represents the sum of the Tier 1 deductions for all members of the *insurance group*.

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING INSTRUCTIONS

Ref	*Instructions*
TT1 (page 1)	This entry is *total group tier one capital* (see stage A of *PRU* 8.3.43R) after application of limits 1, 2 and 3 below: Limit 1: *Total group tier one capital*, less *innovative tier one capital resources* included in *total group tier one capital*, must account for at least 50% of the *group capital resources requirement* less any *with-profits insurance capital components* included in the *group capital resources requirement* (see *PRU* 8.3.45R(1)(a)). Limit 2: *Core tier one capital resources* included in *total group tier one capital* must account for at least 50% of *total group tier one capital* (see *PRU* 8.3.45R(1)(c)). Limit 3: *Innovative tier one capital resources* included in *total group tier one capital* must not exceed 15% of *total group tier one capital* (see *PRU* 8.3.45R(1)(d)). Any capital item excluded by limit 3 may form part of *total group tier two capital* (see *PRU* 8.3.46G).
H5 H6 (page 1)	These entries represent the total contribution of the *regulated related undertakings* and the *ultimate insurance parent undertaking* or *ultimate EEA insurance parent undertaking* to *total group tier two capital*.
TT2 (page 1)	This entry is calculated as the sum of H5 and H6 which represents *total group tier two capital* (stage B in *PRU* 8.3.43R) after application of limits 4 and 5 as follows: Limit 4: *Total group tier two capital* must not exceed *total group tier one capital* (see *PRU* 8.3.45R(1)(e)). Limit 5: *Lower tier two capital resources* calculated in accordance with *PRU* 8.3.57R included in *total group tier two capital* must not exceed 50% of *total group tier one capital* (see *PRU* 8.3.45R(1)(f)).

FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING INSTRUCTIONS

Ref	*Instructions*
TCR (page 1)	This entry is calculated as the sum of TT1 and TT2 and represents group capital resources before deductions (stage C in *PRU* 8.3.43R) after application of limit 6 as follows: Limit 6: *Total group tier one capital* less *innovative tier one capital resources* included in *total group tier one capital,* plus *total group tier two capital* less any *lower tier two capital resources* included in *total tier two capital* must account for at least 75% of the *group capital resources requirement* less any *with-profits insurance capital components* included in the *group capital resources requirement* (*PRU* 8.3.45R(1)(b)).
H7 (page1)	This entry is the sum of columns D1 and D2 on page 2 which represent deductions to be made from total *group capital resources* in respect of the group's interest in inadmissible assets (see 8.3.59R), and *ancillary services undertakings* (see *PRU* 8.3.62R).
GCR (page1)	This entry is calculated as TCR less H7. This represents *group capital resources* (stage H in *PRU* 8.3.43R).
GCRR (page 1)	This entry is calculated as the sum of column B on page 2 which represents the *group capital resources requirement* (*PRU* 8.3.33R).
I (page 1)	This is calculated as total *group capital resources* less total *group capital resources requirement* (GCR – GCRR). This represents the amount by which *group capital resources* exceed or fail to exceed the *group capital resources requirement*.

Part 3: Amendments to volume 3 of the Interim Prudential sourcebook for insurers

In this part underlining indicates new text and striking through indicates deleted text. Where an entire section is deleted, the place where the change will be made is indicated and the text is not struck through.

INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

CONTENTS

VOLUME THREE

FSA GUIDANCE NOTES

GUIDANCE: FSA 'DEAR DIRECTOR' LETTERS

DD1 ~~Use of derivatives – listed products~~ [deleted]

OTHER MATERIAL: 'DEAR APPOINTED ACTUARY' LETTERS

DAA8	~~Recommended aids reserving policy~~ [deleted]
DAA9	~~Pensions review: reserving for guarantees~~ [deleted]
DAA11	~~Reserving for guaranteed annuity options~~ [deleted]
DAA13	~~Reserving for guaranteed annuity options~~ [deleted]
DAA14	[deleted]
DAA15	[deleted]

The following guidance notes are deleted:

Guidance Note P.1	Systems and controls over the investments (and counterparty exposure) with particular reference to the use of derivatives (Principles for business)
Guidance Note P.2	Systems and controls over general business claims provisions (Principles for business)
Guidance Note P.3	Systems and controls in insurers
Guidance Note 2.1	Hybrid capital: admissibility for solvency (rule 6.1 and required margin of solvency)
Guidance Note 2.2	Guidance on applications for waivers relating to implicit items
Guidance Note 2.3	Solvency margin: implementation of Solvency 1 Directives
Guidance Note 4.1	Guidance for insurers and auditors on the Valuation of Assets Rules
Guidance Note 4.2	Use of derivative contracts in insurance funds (rule 4.12)
Guidance Note 4.4	Linked contracts
Guidance Note 5.1	Resilience test
Guidance Note 9.1	Preparation of returns
Guidance Note 10.1	Parent undertaking solvency calculation

The following 'Dear Director' letter is deleted

DD1 Use of derivatives – listed products

The following 'Dear appointed actuary' letters are deleted

DAA8	Recommended aids reserving policy
DAA9	Pensions review: reserving for guarantees
DAA11	Reserving for guaranteed annuity options
DAA13	Reserving for guaranteed annuity options

Guidance Note P.1 [deleted]

Guidance Note P.2 [deleted]

Guidance Note P.3 [deleted]

Guidance Note 2.1 [deleted]

Guidance Note 2.2 [deleted]

Guidance Note 2.3 [deleted]

Guidance Note 4.1 [deleted]

Guidance Note 4.2 [deleted]

Guidance Note 4.4 [deleted]

Guidance Note 5.1 [deleted]

Guidance Note 9.1 [deleted]

Guidance Note 10.1 [deleted]

DD1 [deleted]

DAA8 [deleted]

DAA9 [deleted]

DAA11 [deleted]

DAA13 [deleted]

Annex H

Amendments to the Insurance: Conduct of Business sourcebook

In this Annex, underlining indicates new text and striking through indicates deleted text.

…

1.2.2 G (1) …

(2) In relation to (1), *insurers* should note that ~~*IPRU(INS)* 1.3R~~ <u>*PRU* 7.6.13R</u> prevents an *insurer* from carrying on an *insurance mediation activity* …

…

1 Annex 2G – Summary of Handbook provisions for insurance intermediaries

2. Table

…		
Business Standards	Interim Prudential sourcebooks …	…
	Prudential sourcebook *PRU* 9.1 – *PRU* 9.3	Applies in respect of (1).
	PRU ~~9.4~~	Applies in respect of (1) where the *insurance intermediary* is also an *insurer* ~~or a *mortgage lender*~~.
	<u>*PRU* 9.4</u>	<u>Applies in respect of (1) where the *insurance intermediary* is also a *mortgage lender*.</u>
…		

…

4.2.13 G (1) …

(2) ~~*IPRU(INS)* 1.3R~~ <u>*PRU* 7.6.13R</u> (Restriction of business to insurance) in practice restricts the business which an *insurer* can carry on.

…

Annex I

Amendments to the Market Conduct sourcebook (MAR)

In this Annex, underlining indicates new text and striking through indicates deleted text.

…

3.3.2	G	… *Firms* should also consider the other provisions of the *Handbook*, especially but not exclusively *ML*, ~~and~~ *IPRU* and *PRU*.

…

Annex J

Amendments to the Authorisation manual (AUTH)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1.5.3 G …

(1) Prudential requirements:

(a) …

(b) the detailed prudential requirements in the Interim Prudential Sourcebooks (collectively referred to as *IPRU)* <u>and in the Integrated Prudential Sourcebook *(PRU*)</u> in the Business Standards part of the *Handbook*. <u>In addition to *PRU*</u> there are five <u>interim</u> sourcebooks that apply, respectively, to *banks* (*IPRU(BANK)*), *building societies* (*IPRU(BSOC)*), *friendly societies* (*IPRU(FSOC)*), *insurance companies* (*IPRU(INS)*) and *investment business firms* (*IPRU(INV)*). *Guidance* is given to applicants in *AUTH* 3 Annex 2G on determining which prudential category, and which sourcebook of *IPRU* <u>or section of *PRU*</u> will apply.

…

(2) Systems, controls and internal arrangements:

(a) …

(b) the detailed requirements, many of which are *regulated activity* specific, in the sourcebooks in the Business Standards part of the *Handbook*; for example, in *IPRU*, <u>*PRU*,</u> the Training and Competence Sourcebook (*TC*), the Money Laundering Sourcebook (*ML*) and Conduct of Business Sourcebook (*COB*); …

…

…

3.8.4 G (1) …

(2) The *Single Market Directives*, the *Capital Adequacy Directive* and the *E-Money Directive* set out minimum financial requirements for all *firms* which carry on banking, issuing e-money, insurance or investment services within the scope of the *Single Market Directives* and the *E-Money Directive*, that is, most *firms* that are *credit institutions*, *financial institutions*, *insurance undertakings* or *investment firms* as defined in these Directives. These requirements are reflected in <u>*PRU* or in</u> the

relevant *IPRU* for each type of *firm*.

…

3.8.6 G An applicant in the prudential category of *bank* or *insurer* should note that the *FSA* will give it individual guidance on its likely capital requirements: for example, the individual capital ratios for a *bank* (see *IPRU(BANK*) CO 4.1.1 (Individual capital ratios)) or the ~~capitalisation or solvency margin~~ *capital resources requirements* of an *insurer* (see ~~*IPRU*(INS) 2 (Margins of Solvency)~~ *PRU* 2.1)) during pre-application discussions (see *AUTH* 3.9.2G).

3.8.7 G Applicants should note that the prudential category and, where relevant, sub-category, not only determines which provisions in the relevant *IPRU* or *PRU* will apply, but which provisions on auditors, financial reporting and transaction reporting in ~~the~~ *SUP* will apply.

3.8.8 G An applicant that is a member of a *group* should note that the *FSA* may take into consideration the impact of other members of the *group* on the adequacy of its resources (see the relevant sections of *PRU* or *IPRU*).

…

3.12.2 G An applicant seeking to carry on *insurance business* should note the restrictions in ~~*IPRU(INS*) 1.3R(1) and *IPRU(FSOC*) 1.3R~~ *PRU* 7.6.13R which relate to the carrying on of other commercial business.

3.12.3 G (1) As a result of these restrictions, the *FSA* will grant an applicant seeking to carry on *insurance business Part IV permission* for *insurance business*, and any other *regulated activities*, only to the extent they are not restricted under ~~*IPRU(INS)* and *IPRU(FSOC*)~~ *PRU*.

(2) … If the *FSA* gives an applicant *Part IV permission* for *insurance business* and other *regulated activities*, these other *regulated activities* will be subject to *limitations*, as appropriate, so as to comply with ~~*IPRU(INS*) 1.3R(1) and *IPRU(FSOC*) 1.3R).~~*PRU* 7.6.13R.

…

3.12.15 G An applicant which has its head office outside the *United Kingdom* (other than an *EEA firm, Treaty firm* or a *Swiss general insurance company*) should note the requirement in *IPRU(INS*) 8.~~10~~3R to appoint a *chief executive* …

3.12.16 G A *Swiss general insurance* company seeking to establish a *branch* in the *United Kingdom* should note the requirement referred to in ~~*IPRU(INS*) 18.11R~~ *COND* 2.6.1G to appoint an *authorised UK representative* for the *United Kingdom*.

3.12.17 G An applicant with its head office outside the *United Kingdom* (other than an *EEA firm* or a *Treaty firm*) seeking *permission* to carry on direct or both direct and reinsurance business in the *United Kingdom* should note that specific prudential requirements apply (see ~~*IPRU(INS)*~~*PRU*).

…

3.18.3 G The *FSA*'s regulatory requirements, including *PRU* and *IPRU,* will apply to a *firm* in full and worldwide, unless otherwise stated. …

…

Auth 5 Annex 3

2 G

(1) Module of Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
...		
PRU	… *PRU* 9.4…does not apply unless the *firm* has a *top-up permission*. Otherwise, *PRU* does not apply unless the *firm* is an *insurer* to which *PRU* 7.6.33R applies	
…		

Annex K

Amendments to the Supervision manual

Part 1: Amendments to SUP App 2

In this part, where existing text is replaced by new text, this is indicated and the new text is not underlined.

SUP App 2 is deleted and re-made, with amendments, as follows:

2 Insurers: Regulatory intervention points

2.1 Application

2.1.1 R This appendix applies to an *insurer* unless it is:

(1) a *Swiss general insurer*; or

(2) an *EEA-deposit insurer*; or

(3) an *incoming EEA firm*; or

(4) an *incoming Treaty firm*.

2.1.2 G This appendix applies to every *friendly society* as a *friendly society* is an *insurer*.

2.2 Interpretation

2.2.1 R For the purpose of *SUP* App 2:

(1) "capital resources":

(a) in relation to a *non-directive friendly society*, has the meaning given to "margin of solvency" in *rule* 4.1(4) of *IPRU(FSOC)*;

(b) in relation to a *participating insurance undertaking*, means P+T, where P and T have the meanings given by *PRU* 8.3.45R(3)(a) and (e) respectively, as calculated in accordance with *PRU* 8.3.43R; and

(c) in relation to any other *firm*, means the *firm's capital resources* as calculated in accordance with *PRU* 2.2.12R;

(2) "guarantee fund":

(a) in relation to a *non-directive friendly society*, has the meaning given to that term in *IPRU(FSOC)*;

(b) in relation to a *participating insurance undertaking*, means the amount of capital resources which that *firm* must hold to comply with *PRU* 8.3.45R(2);

(c) in relation to a *firm* which is not covered by (a) or (b), carrying on *general insurance business*, means the amount of capital resources which that *firm* must hold to comply with *PRU* 2.2.18R; and

(d) in relation to a *firm* which is not covered by (a) or (b), carrying on *long-term insurance business*, means the amount of capital resources which that *firm* must hold to comply with *PRU* 2.2.17R;

(3) "material transaction" means a transaction (when aggregated with any similar transactions) in which:

(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 *firm* which carries on *long-term insurance business*, but not *general insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *property-linked liabilities* and net of *reinsurance* ceded; or

(d) in the case of a *firm* which carries on *general insurance business*, but not *long-term insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance* ceded; or

(e) in the case of a *firm* which carries on both *long-term insurance business* and *general insurance business*:

(i) where the transaction is in connection with the *firm's* *long-term insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *property-linked liabilities* and net of *reinsurance* ceded; and

(ii) in all other cases, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance* ceded; and

(4) "required margin of solvency":

   (a) in relation to a *non-directive friendly society*, has the meaning given to that term in *IPRU(FSOC)*;

   (b) in relation to a *participating insurance undertaking*, means R-S-U, where R, S and U have the meanings given by *PRU* 8.3.45R(3)(c), (d) and (f) respectively;

   (c) in relation to a *firm* which is not covered by (a) or (b), carrying on *general insurance business*, means the *general insurance capital requirement* applicable to that *firm*; and

   (d) in relation to a *firm* which is not covered by (a) or (b), carrying on *long-term insurance business*, means the *long-term insurance capital requirement* applicable to that *firm*.

2.2.2 G The calculation of each of the *base capital resources requirement*, the *long-term insurance capital requirement* and the *general insurance capital requirement* is set out in *PRU* 2.1. The calculation of each of the "guarantee fund" and "required margin of solvency" for *non-directive friendly societies* is set out in chapter 4 of *IPRU(FSOC)*.

2.3 Purpose

2.3.1 G To fulfil its obligations under the *Insurance Directives*, and as part of the *FSA*'*s* risk-based approach to supervision, there are certain times when the *FSA* needs to monitor a *firm* more closely than it normally would. This is so the *FSA* can fulfil its function of supervising *firms* properly and meet the *regulatory objective* of securing an appropriate degree of protection for *consumers*.

2.3.2 G The *rules* in this appendix require a *firm* to submit reports and information to the *FSA* when:

(1) a *firm* is failing to satisfy *threshold condition* 4 (Adequate resources) (see *COND* 2.2), and its capital resources have fallen below its required margin of solvency*,* or its guarantee fund; or

(2) the capital resources of a *firm* have fallen below its *capital resources requirement*; or

(3) a *firm* has decided to cease to *effect* new *contracts of insurance*; or

(4) a *firm* is going through periods of potential uncertainty, for example, when it has come under the *control* of a new *parent undertaking* or following the grant or variation of *permission*.

2.3.3 G The *FSA* may also ask a *firm* to submit reports and information to it when the *firm's* capital resources fall below the level advised in individual capital *guidance* given to the *firm*.

2.3.4 G In accordance with the *Insurance Directives*, a *firm* whose capital resources have fallen below its required margin of solvency, or its guarantee fund, is required, by the *rules* set out in this appendix, to submit a *scheme of operations*, together with an explanation of how its capital resources will be adequately restored. In order to secure an appropriate degree of protection for *consumers*, the *FSA* applies the *rules* in this appendix to *firms* to which the provisions of the *Insurance Directives* would not otherwise apply.

2.3.5 G A *firm* which is entering into run-off is required to submit a *scheme of operations*, including an explanation of how its *liabilities to policyholders* will be met in full. Where the capital resources of such a *firm* subsequently fall below its required margin of solvency, the *firm* is required to submit a plan for restoration.

2.3.6 G Following a change in *control*, or the grant or variation of *permission*, the reports submitted help the *FSA* to identify when a *firm* departs from the *scheme of operations* submitted as part of the notification of a change in *control*, or an application for the grant or variation of *permission*, and on which basis such notification or application was approved.

2.3.7 G *Principle* 4 of the *FSA's* Principles for Businesses provides that *firms* should hold adequate financial resources, while *PRU* 1.2.22R requires a *firm* to maintain overall financial resources which are adequate to ensure that there is no significant risk that it cannot meet its liabilities as they fall due. In considering these requirements, a *firm* may decide to maintain capital resources above the level advised in individual capital *guidance* given by the *FSA,* or, if no individual capital *guidance* has been given, above its *capital resources requirement*. The amount of any such additional capital resources held is at the discretion of the *firm*. However, the extent to which a *firm* matches these additional capital resources to the volatility of its capital base, in conjunction with the strength of its systems and controls environment, is likely to affect the frequency with which it is subject to intervention under this appendix.

2.3.8 G In relation to a *firm* carrying on *with-profits insurance business*, action which it takes either to restore its capital resources to the levels set by the intervention points in this appendix, or to prevent its capital resources falling below those points, should be consistent with *Principle* 6 of the *FSA's* Principles for Businesses. *Principle* 6 requires a *firm* to pay due regard to the interests of its *customers* and treat them fairly.

2.3.9 G These *rules* are in addition to the other *rules* and *guidance* in *SUP*, in particular *SUP* 2 (Information gathering by the *FSA* on its own initiative), *SUP* 15 (Notifications to the *FSA*), *SUP* 16 (Reporting requirements) and the Principles for Businesses (*PRIN*).

2.4 Capital resources below guarantee fund

2.4.1 R If a *firm's* capital resources fall below its guarantee fund, it must, within 14 days of the *firm* becoming aware of this event, submit to the *FSA* a short-term financial plan, including:

(1) a *scheme of operations* (see *SUP* App 2.12); and

(2) an explanation of how, if at all, and by when, it expects its capital resources to be adequately restored to the guarantee fund.

2.4.2 G See *SUP* App 2.11.2G for *guidance* on the period that the *scheme of operations* should cover.

2.5 Capital resources below required margin of solvency

2.5.1 R Unless *SUP* App 2.5.3R applies:

(1) if a *firm's* capital resources are such that they no longer equal or exceed its required margin of solvency; or

(2) if a *firm* no longer complies with *PRU* 2.2.16R and *PRU* 2.2.24R, or *PRU* 8.3.45R(1)(a) and *PRU* 8.3.45R(1)(b), as applicable;

it must, within 28 days of becoming aware of this event, submit to the *FSA* a plan for the restoration of a sound financial position, including:

(3) a *scheme of operations*; and

(4) an explanation of how, if at all, and by when:

(a) it expects its capital resources to be restored to the required margin of solvency; or

(b) as the case may be, it expects to comply with *PRU* 2.2.16R and *PRU* 2.2.24R, or *PRU* 8.3.45R(1)(a) and *PRU* 8.3.45R(1)(b), as applicable.

2.5.2 G See *SUP* App 2.11.2G for *guidance* on the period that the *scheme of operations* should cover.

2.5.3 R If a *firm*:

(1) falls into *SUP* App 2.5.1R(1) or (2); and

(2) it has previously submitted either a run-off plan in accordance

with *SUP* App 2.8.1R or a *scheme of operations* in accordance with *SUP* App 2.5.1R;

it must, within 28 days of becoming aware that it falls into *SUP* App 2.5.1R(1) or (2):

(3) notify the *FSA*; and

(4) submit a plan for restoration which:

(a) explains why the *firm's* capital resources have fallen below its required margin of solvency or, as the case may be, it no longer complies with *PRU* 2.2.16R or *PRU* 2.2.24R, or *PRU* 8.3.45R(1)(a) and *PRU* 8.3.45R(1)(b), as applicable; and

(b) demonstrates how, if at all, and by when, the *firm* will restore it or, as the case may be, resume compliance with *PRU* 2.2.16R and *PRU* 2.2.24R, or *PRU* 8.3.45R(1)(a) and *PRU* 8.3.45R(1)(b), as applicable.

2.6 Capital resources below capital resources requirement

2.6.1 R Unless any of *SUP* App 2.4.1R, 2.5.1R or 2.5.3R applies, if a *firm's* capital resources fall below its *capital resources requirement*, it must, within 28 days of becoming aware of this event:

(1) notify the *FSA*; and

(2) submit a plan for restoration, which:

(a) explains why the *firm's* capital resources have fallen below its *capital resources requirement*; and

(b) demonstrates how, if at all, and by when, the *firm* will restore it.

2.7 Capital resources below the level of individual capital guidance

2.7.1 G Unless any of *SUP* App 2.4.1R, 2.5.1R, 2.5.3R or 2.6.1R applies, if a *firm's* circumstances change, such that its capital resources have fallen, or are expected to fall, below the level advised in individual capital *guidance* given to the *firm* by the *FSA*, then, consistent with *PRIN* 2.1.1R *Principle* 11 (Relations with regulators), a *firm* should inform the *FSA* of this fact as soon as practicable, explaining why capital resources have fallen, or are expected to fall, below the level advised in individual capital *guidance*, and:

(1) what action the *firm* intends to take to increase its capital resources; or

(2) what modification the *firm* considers should be made to the individual capital *guidance* which it has been given.

2.7.2 G In the circumstance set out in *SUP* App 2.7.1G, the *FSA* may ask a *firm* for alternative or more detailed proposals and plans or further assessments and analyses of capital adequacy and risks faced by the *firm*. The *FSA* will seek to agree with the *firm* appropriate timescales and scope for any such additional work, in light of the circumstances which have arisen.

2.7.3 G In relation to a *firm* carrying on *with-profits insurance business*, if it intends either (a) to remedy a fall in the level of capital resources advised in its individual capital *guidance*, or (b) to prevent a fall in the level advised in that *guidance*, for example, in either case, by taking management action to de-risk a *with-profits fund* or by reducing non-contractual benefits for *policyholders*, it should explain to the *FSA* how such proposed actions are consistent with the *firm's* obligations under *PRIN* 2.1 *Principle* 6 (Customers' interests).

2.7.4 G If a *firm's* capital resources fall below the level advised in individual capital *guidance* given to the *firm* and, at the same time, any one or more of *SUP* App 2.4.1R, 2.5.1R, 2.5.3R or 2.6.1R applies, the *firm* should first comply with those *rules*. Those *rules* are concerned with circumstances where capital resources are likely to have fallen to levels much lower than the level advised in individual capital *guidance* and are, in some cases, requirements imposed by the *Insurance Directives*.

2.7.5 G If a *firm* has not accepted individual capital *guidance* given by the *FSA* it should, nevertheless, inform the *FSA* as soon as practicable if its capital resources have fallen below the level suggested by that individual capital *guidance*. In such circumstances, the *FSA* may ask the *firm* for further explanation as to why it does not consider the individual capital *guidance* to be appropriate. The *FSA* may also consider using its powers under section 45 of the *Act* to, on its own initiative, vary a *firm's Part IV permission*, so as to require it to hold such capital as the *FSA* considers is necessary for the *firm* to comply with *PRU* 1.2.22R.

2.8 Ceasing to effect contracts of insurance

2.8.1 R If a *firm* decides to cease to *effect* new *contracts of insurance*, it must, within 28 days of that decision, submit a run-off plan to the *FSA* including:

(1) a *scheme of operations*; and

(2) an explanation of how, or to what extent, all *liabilities to policyholders* (including, where relevant, liabilities which arise

from the regulatory duty to treat *customers* fairly in setting discretionary benefits) will be met in full as they fall due.

2.8.2 G *SUP* App 2.8.1R only applies if a *firm* ceases to *effect* new *contracts of insurance* in respect of the whole of its *insurance business*.

2.8.3 G For the purposes of *SUP* App 2.8.1R, a new *contract of insurance* excludes contracts effected under a term in a subsisting *contract of insurance*.

2.8.4 G Under *Principle* 11, the *FSA* normally expects to be notified by a *firm* when it decides to cease *effecting* new *contracts of insurance* in respect of one or more *classes* of *contract of insurance* (see *SUP* 15.3.8G). At the same time, the *FSA* would normally expect the *firm* to discuss with it the need for the *firm* to apply to vary its *permission* (see *SUP* 6.2.6G and *SUP* 6.2.7G) and, if appropriate, to submit a *scheme of operations* in accordance with *SUP* App 2.8.1R.

2.8.5 G See *SUP* App 2.11.2G for *guidance* on the period that the *scheme of operations* should cover.

2.9 Under control of a new parent undertaking

2.9.1 G A *firm* that has notified the *FSA* of a new *parent undertaking* may be requested to submit a *scheme of operations* (see *SUP* 11.5.5G). A *scheme of operations* would be requested if the significance and circumstances of the change were considered to be sufficient to merit that level of scrutiny. This is normally only likely to be necessary when there has been an ultimate change in *control*, or when, as a result of the change in *control*, significant changes are proposed to the *firm's regulated activities*, business plan or strategy. A *firm* which has submitted a *scheme of operations* under *SUP* 11.5.5G, is not required to submit a further *scheme of operations* under this appendix unless *SUP* App 2.4, 2.5 or 2.8 applies. *SUP* App 2.13 does, however, apply to such a *firm.*

2.10 Grant or variation of permission

2.10.1 G The *FSA* may ask a *firm* seeking a grant or variation of *permission* to provide a *scheme of operations* as part of the application process (see *AUTH* 3.9.9G(1) and *SUP* 6.3.25G). Such a *firm* is not required to submit a further *scheme of operations* under this appendix unless *SUP* App 2.4, 2.5 or 2.8 applies. *SUP* App 2.13 and *SUP* 6 Ann 4G do, however, apply to such a *firm*.

2.11 Submission of a scheme of operations or a plan for restoration

2.11.1 G A *firm* should discuss its plan in draft with the *FSA* before submitting it. If a plan is submitted which does not satisfy the *FSA* that the *firm* can restore its capital resources (as appropriate), or meet its liabilities as they fall due, the *FSA* may use its *own-initiative power* to vary or cancel the *firm's permission*. If a *firm* submitting a plan is part of a *group* of *companie*s, the *FSA* may ask that *firm* to provide additional information in relation to other *companies* in the *group*, if this is necessary to establish how the *firm* will restore its own sound financial position. The *firm* should agree in discussion with the *FSA* the nature of such additional information.

2.11.2 G The *schemes of operations* required when a *firm's* capital resources have fallen below its required margin of solvency or its guarantee fund (see *SUP* App 2.5.1R and *SUP* App 2.4.1R, respectively) should cover a period which is sufficient to demonstrate that the *firm's* capital resources will be adequately restored. Typically this would be a period of at least three years. However, if a *scheme of operations* has expired, but *SUP* App 2.4.1R or 2.5.1R continues to apply, the *firm* should submit a new *scheme of operations*. The *scheme of operations* required by *SUP* App 2.8.1R, when a *firm* ceases to *effect* new *contracts of insurance*, should cover the run-off period until all *liabilities to policyholders* are met.

2.11.3 G The period to be covered by, and the details to be included in, the plan for restoration required by *SUP* App 2.5.3R will depend on the circumstances of the *firm*, why its capital resources have fallen below its required margin of solvency and the degree of risk that that fall will be repeated, even if the *firm* restores its capital resources in accordance with its plan.

2.11.4 G In relation to a *firm* which carries on *with-profits insurance business* and which submits a plan, the *FSA* would expect an explanation of how any actions it plans to take to restore capital resources to the level of the guarantee fund, required margin of solvency or *capital resources requirement* are consistent with the *firm's* obligations under *Principle* 6 (Customers' interests).

2.12 Content of a scheme of operations

2.12.1 R A *scheme of operations* must:

(1) describe the *firm's* business strategy;

(2) include financial projections (including appropriate scenarios and stress-tests) as follows:

(a) a forecast summary profit and loss account in accordance with *SUP* App 2.12.7R;

(b) a forecast summary balance sheet in accordance with *SUP* App 2.12.8R; and

(c) a forecast statement of capital resources in accordance with *SUP* App 2.12.9R; and

(3) as at the end of each *financial year* which falls (in whole or part) within the period to which the *scheme of operations* relates:

(a) describe the assumptions which underlie those forecasts and the reasons for adopting those assumptions; and

(b) identify any material transactions proposed to be effected or carried out with, or in respect of, any *associate*.

2.12.2 G The business strategy referred to at *SUP* App 2.12.1R(1) should include a description of the nature of the risks which the *firm* is underwriting, or intends to underwrite. It should also give an explanation of the *firm's* strategy for managing the risks associated with carrying on *insurance business* (including, in particular, *reinsurance*).

2.12.3 G The amount of detail to be given on the *firm's* business strategy required by *SUP* App 2.12.1R(1) should be appropriate to the scale and complexity of the *firm's* operations and the degree of risk involved.

2.12.4 R The information required by *SUP* App 2.12.1R must reflect the nature and content of the *rules* relating to capital resources applicable to a *firm*.

2.12.5 G In relation to *firms* covered by this appendix, *IPRU(FSOC)* 4.1 sets out the *rules* relating to capital resources for *non-directive friendly societies* and *PRU* 2.1, 2.2 and 8.3 set out the *rules* relating to capital resources for every other *firm*. The capital resources which a *firm* is required to maintain vary according to whether the *firm* has its head office in the *United Kingdom* or overseas, and depending on the nature of the *insurance business* it carries on. The information which a *firm* is required to submit under *SUP* App 2.12.1R should reflect the nature and content of the *rules* relating to capital resources identified above. For example, in order to satisfy *SUP* App 2.12.1R, a *firm* with its head office outside the *United Kingdom* which is carrying on direct *insurance business* in the *United Kingdom* should submit separate information concerning its world-wide activities and its *UK* activities.

2.12.6 G To reflect its obligations under *PRU* 2.1.10R or *IPRU(FSOC)* 4.1(2) (as applicable), in order to comply with *SUP* App 2.12.1R, a *firm* which carries on both *long-term insurance business* and *general insurance business* should submit separate information for each type of *insurance business*.

2.12.7 R Summary profit and loss account (see SUP App 2.12.1R(2)(a))

(1)	*Premiums* and *claims* (gross and net of *reinsurance*) analysed by accounting *class* of *insurance business*
(2)	Investment return
(3)	Expenses
(4)	Other charges and income
(5)	Taxation
(6)	Dividends paid and accrued

2.12.8 R Summary balance sheet (see SUP App 2.12.1R(2)(b))

(1)	Investments analysed by type
(2)	Assets held to cover linked liabilities
(3)	Other assets and liabilities separately identifying cash at bank and in hand
(4)	Capital and reserves analysed into called up *share* capital or equivalent funds, *share* premium account, revaluation reserve, other reserves and profit and loss account
(5)	Subordinated liabilities
(6)	The fund for future appropriations
(7)	Technical provisions gross and net of *reinsurance* analysed by accounting *class* of *insurance business* and separately identifying the provision for linked liabilities, *unearned premiums*, unexpired risks and equalisation
(8)	Other liabilities and credits

2.12.9 R A forecast statement of capital resources (under *SUP* App 2.12.1R(2)(c)) must include the forecast capital resources and the forecast required margin of solvency at the end of each *financial year* or part *financial year*.

2.13 Obligations on firms which have previously submitted a scheme of operations

2.13.1 R A *firm* which has submitted a *scheme of operations* to the *FSA*, whether required by *SUP* App 2.4, 2.5 or 2.8, or as part of an application under *SUP* 6.3 (see *SUP* 6.3.25G), *SUP* 6.4 (see *SUP* 6 Ann 4G), *AUTH* 3.9 (see *AUTH* 3.9.9G(1)), or *SUP* 11.5 (see *SUP* 11.5.5G), or an amended *scheme of operations*, must during the period covered by that *scheme of operations*:

(1) notify the *FSA* at least 28 days before entering into or carrying out any material transaction with, or in respect of, an *associate*, unless that transaction is in accordance with a *scheme of operations* which has been submitted to the *FSA*;

(2) submit a quarterly financial return to the *FSA* which must include for, or as at the end of, each quarter:

(a) a summary profit and loss account prepared in accordance with *SUP* App 2.12.7R;

(b) a summary balance sheet prepared in accordance with *SUP* App 2.12.8R; and

(c) a statement of capital resources prepared in accordance with *SUP* App 2.12.9R;

and which must identify and explain differences between the actual results and the forecasts submitted in the *scheme of operations*; and

(3) notify the *FSA* promptly of any matter which has either happened or is likely to happen and which represents a significant departure from the *scheme of operations*; the *firm* must either:

(a) explain the nature of the departure and the reasons for it and provide revised forecast financial information in the *scheme of operations* for its remaining term; or

(b) include an amended *scheme of operations* and explain the amendments and the reasons for them.

2.13.2 R A report under *SUP* App 2.13.1R(2) must be submitted in accordance with the *rules* in *SUP* 16.3.6R to *SUP* 16.3.13R.

2.13.3 G For the purpose of *SUP* App 2.13.1R(1), the *FSA* considers that transactions with, or in respect of, *associates* include:

(1) contracting (as either party), advancing, repaying, writing off or agreeing to change the terms of any loan;

(2) entering into (in any capacity), releasing, calling upon or agreeing to change the terms of any guarantee, pledge, security, charge or any off-balance-sheet transaction;

(3) entering into agreements to acquire or dispose of property or which otherwise affect the nature or value of the *firm's* assets;

(4) making an investment (directly or indirectly) in an *associate*;

(5) entering into (as either party), commuting or agreeing to change the terms of, any contract of *reinsurance*; and

(6) entering into, or changing the terms of, any agreement to give or provide services or to share costs.

2.13.4 G The *FSA* considers that a significant departure referred to in *SUP* App 2.13.1R(3) includes:

(1) entry or withdrawal from a line of *insurance business*;

(2) significant revision of the *firm's* strategy for managing risks, in particular the basis upon which risks are reinsured;

(3) forecast *premiums* being exceeded, by more than 10%, for a single *financial year* (or part year if the period covered by the *scheme of operations* is or includes part of a *financial year*);

(4) *claims* experience being significantly worse than forecast for a single *financial year* (or part year if the period covered by the *scheme of operations* is or includes part of a *financial year*);

(5) the actual level of capital resources being significantly worse than forecast;

(6) paid or proposed dividends being greater than those forecast; and

(7) any other transaction or circumstance which is likely to have a material effect upon available assets (as defined in *IPRU(INS)* 11.1).

2.14 Financial Recovery Plan

2.14.1 G When:

(1) the *FSA* has required a financial recovery plan within the meaning of article 20a of the *First Non-Life Directive*;

(2) the *FSA* is of the view that *policyholders*' rights are threatened because the financial position of the *firm* is deteriorating; and

(3) the *FSA* decides to require the *firm* to hold more capital than would otherwise be required under the *Handbook* to ensure that the *firm* will be able to fulfil the required margin of solvency in the near future;

any such higher capital requirement will be based on the financial recovery plan.

Part 2: Other amendments to the Supervision manual

In this part, underlining indicates new text and striking through indicates deleted text.

4.5.13 R When carrying out his duties, an *actuary* appointed under this chapter must pay due regard to generally accepted actuarial ~~best~~ practice.

4.5.14 G The standards and guidance issued from time to time by the Institute of Actuaries and the Faculty of Actuaries are important sources of <u>generally accepted</u> actuarial ~~best~~ practice.

…

8.2.7 G Table Rules which can be waived (see *SUP* 8.2.6G)

Rules	Section of the Act or other provision under which rules are made	Chapters of the Handbook where such rules appear (Note 1)
…		
Insurance business rules	Section 141	~~*IPRU(INS)*~~ <u>*PRU*</u>
…		

9.3.2 G The *FSA* may give individual *guidance* to a *firm* on its own initiative if it considers it appropriate to do so. For example:

…

(5) in relation to the maintenance of adequate financial resources, the *FSA* may give a *firm* individual *guidance* on the amount or type of financial resources the *FSA* considers appropriate, for example on individual capital ratios for *banks* and *building societies*; further *guidance* on how and when the *FSA* may give individual *guidance* on financial resources is contained in the Interim Prudential sourcebooks <u>and in *PRU*</u>:

…

(c) for a *securities and futures firm* (or other *firm* required to comply with *IPRU(INV)* 3 or *IPRU(INV)* 10): *IPRU(INV)* 10-74R and *IPRU(INV)* App 48~~.~~<u>; and</u>

<u>(d)</u> <u>for an *insurer*: *PRU* 2.3.13G and *PRU* 2.3.14G.</u>

…

10.12.3 G In accordance with section 60 of the *Act* (Applications for approval), applications must be submitted by, or on behalf of, the *firm* itself, not by the *candidate*. Usually this will be the *firm* that is employing the *candidate* to perform the *controlled function*. Where a *firm* has outsourced the performance of a *controlled function*, the details of the outsourcing determine where responsibility lies and whom the *FSA* anticipates will submit *approved persons* forms. *SUP* 10.12.4G describes some common situations. The *firm* which is outsourcing is referred to as "A" and the *person* to whom the performance of the function has been outsourced, or which makes the *arrangement* for the function to be performed, is referred to as "B". In each situation, A must take reasonable care to ensure that, in accordance with section 59(2) of the *Act*, no *person* performs a *controlled function* under an *arrangement* entered into by its contractor in relation to the carrying on by A of a *regulated activity*, without approval from the *FSA*. See also *SYSC* 3.2.4G and if applicable *IPRU(BANK)* OS<u>,</u> ~~and~~ *IPRU(BSOC)* OS<u>, and for *insurers SYSC* 3A.9</u>.

…

15.3.8 G Compliance with *Principle* 11 includes, but is not limited to, giving the *FSA* notice of:

(1) any proposed restructuring, reorganisation or business expansion which could have a significant impact on the *firm*'s risk profile or resources, including, but not limited to:

…

(e) entering into, or significantly changing, a *material outsourcing* arrangement (a bank should also see *IPRU(BANK)* OS 4.2<u>,</u> ~~and~~ a building society should also see *IPRU(BSOC)* ~~12~~<u>11</u> OS 4.2<u>, and an *insurer* should also see *SYSC* 3A.9</u> for further details); or

…

…

Annex L

Amendments to the Enforcement manual

In this Annex, underlining indicates new text and striking through indicates deleted text.

…

13.6.3 G ~~*IPRU(INS)* rule 3.5(3)~~ *PRU* 7.6.33R prohibits a *long-term insurer* (including a *firm* qualifying for authorisation under Schedule 3 or 4 to the *Act*), which is not a mutual, from paying a financial penalty from a long-term insurance fund.

Annex M

Amendments to the Credit Unions sourcebook

In this Annex, underlining indicates new text.

Appendix 1

1.1.1 Table

<table>
<tr><td colspan="3">…</td></tr>
<tr><td rowspan="3">Business Standards</td><td>5 Interim Prudential sourcebooks</td><td>IPRU</td></tr>
<tr><td><u>Integrated Prudential Sourcebook</u></td><td><u>PRU</u></td></tr>
<tr><td colspan="2">…</td></tr>
<tr><td colspan="3">…</td></tr>
</table>

Annex N

Amendments to the Electronic Money sourcebook

In this Annex, underlining indicates new text.

1.5.2 G Application of other parts of the *Handbook* to *ELMIs*

…

Block	**Module**	**Application**
…		
Block 2 (Business Standards)	Interim Prudential sourcebooks: *IPRU(INS)*, *IPRU(FSOC)*, *IPRU(BANK)*, *IPRU(BSOC)* and *IPRU(INV)* <u>Integrated Prudential Sourcebook (*PRU*)</u>	*ELM* 7 (Consolidated financial supervision) applies *IPRU(BANK)*, *IPRU(BSOC)* and *IPRU(INV)* to certain *ELMIs* who are members of a *group*. Chapter NE of *IPRU(BANK)* is relevant to *ELM* 3.5.16R, as described in *ELM* 3.5.20G. Otherwise, these sourcebooks do not apply to *ELMIs*.
…		

Annex O

Amendments to the Glossary

In this Annex, underlining indicates new text and striking through indicates deleted text. Where new definitions are being inserted, the text is not underlined.

Part 1: New definitions

Insert the following new definitions in the appropriate alphabetical position:

accumulating with-profits policy	a *with-profits insurance contract* 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.
actuarial investigation	an investigation to which *IPRU(INS)* rule 9.4 applies.
actuarial valuation date	(in *PRU*) the date as at which the *mathematical reserves* are calculated.
administrative expenses	has the meaning set out in the *insurance accounts rules*.
ancillary risk	(in relation to an *insurer* with *permission* under the *Act* to insure a principal risk belonging to one *class* (as defined for the purposes of *AUTH*, *PRU*, *LLD* and *SUP*) of *general insurance business*) 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. However, the risks included in *classes* 14, 15 and 17 may not be treated as risks ancillary to other *classes*, except that the risk included in *class* 17 (legal expenses insurance) may be regarded as an ancillary risk of *class* 18 where: (d) the conditions laid down in (a) to (c) are fulfilled, and (e) the principal risk relates solely to assistance provided for *persons* who fall into difficulties while travelling, while away from home or while away from their permanent residence or where it concerns disputes or risks arising out of, or in connection with, the use of sea-going vessels.
ancillary services undertaking	an *ancillary insurance services undertaking*, an *ancillary banking services undertaking* or an *ancillary investment services undertaking*.
Annual Accounts	the Council Directive of 19 December 1991 concerning the annual

Directive	accounts and consolidated accounts of *insurance undertakings* (No. 91/674/EEC).
annual bonus	(in relation to a *with-profits insurance contract*) a discretionary addition to *policy* benefits under a *with-profits insurance contract* made by a *long-term insurer* as a result of the annual *actuarial investigation*.
annualised net written premiums	(for the purposes of *PRU* 7.5) in relation to a *financial year*, the *net written premiums* received during that *financial year*, except that in relation to a *financial year* that has been validly extended beyond, or shortened from, a period of 12 months, the amount of *net written premiums* is the amount determined in accordance with the formula: $$\frac{NWP \times 365}{D}$$ where: (1) NWP is the amount of *net written premiums* received in the *financial year*; and (2) D is the number of days in that *financial year*.
approved quasi-derivative	a *quasi-derivative* in respect of which the conditions in *PRU* 4.3.5R are met.
approved stock lending transaction	a *stock lending* transaction in respect of which the conditions in *PRU* 4.3.36R have been met.
assessable mutual	(for the purposes of *PRU* 7.5) a *mutual* where the *insurance business* carried on by the *mutual* is limited to the provision of *insurance business* to its members and whose articles of association, rules or bye-laws provide for the calling of additional contributions from members to meet *claims*.
asset-related capital requirement	a component of the calculation of the *ECR* for a *firm* carrying on *general insurance business* as set out in *PRU* 3.3.
base capital resources requirement	an amount of *capital resources* that a *firm* must hold as set out in *PRU* 2.1.26R.
basis risk	the risk that the relationship between two financial variables will change, particularly between two sorts of interest rate or between a hedge and the position it ostensibly hedges.
brought forward amount	an amount, as defined in *PRU* 7.2.51R, used in the calculation of the *general insurance capital requirement*.
capital resources	in relation to a *firm*, the *firm's* capital resources as calculated in accordance with *PRU* 2.2.12R.
capital resources requirement	an amount of *capital resources* that a *firm* must hold as set out in *PRU* 2.1.14R to *PRU* 2.1.20R.

claims amount	an amount, as defined in *PRU* 7.2.47R, used in the calculation of the *general insurance capital requirement.*
commitment	a commitment represented by *insurance business* of any of the *classes* (as defined for the purposes of *AUTH*, *PRU*, *LLD* and *SUP*) of *long-term insurance business*.
compensation fund	any *policyholder* compensation scheme in any *EEA State.*
composite firm	a *firm* that carries on both *long-term insurance business* and *general insurance business*.
contingency funding plan	a plan for taking action to ensure that a *firm* has adequately liquid financial resources to meet its liabilities as they fall due, prepared under *PRU* 5.1.86E.
core tier one capital	an item of capital that is stated in stage A of the table in *PRU* 2.2.14R to be core tier one capital.
coupon	a dividend, interest payment or any similar payment.
credit equalisation provision	the provision required to be established by *PRU* 7.5.43R.
CRR	*capital resources requirement*.
deposit back arrangement	(in relation to any contract of *reinsurance*) an arrangement whereby an amount is deposited by the *reinsurer* with the cedant.
ECR	*enhanced capital requirement.*
EEA-deposit insurer	a *non-EEA insurer* that has made a deposit in an *EEA State* (other than the *United Kingdom*) under article 23 of the *First Non-Life Directive* (as amended) in accordance with article 26 of that Directive or under article 51 of the *Consolidated Life Directive* in accordance with article 56 of that Directive.
EEA insurance parent undertaking	an *insurance parent undertaking* that has its head office in the *United Kingdom* or another *EEA State*.
EEA MCR	the *MCR* in relation to business carried on in all *EEA States*, taken together, calculated by a *UK-deposit insurer* in accordance with *PRU* 7.6.46R.
enhanced capital requirement	(1) (in relation to a *firm* carrying on *general insurance business*) the amount calculated in accordance with *PRU* 2.3.11R. (2) (in relation to a *firm* carrying on *long-term insurance business*) an amount of *capital resources* that a *firm* must hold as set out in *PRU* 2.1.34R.
equalisation provision	a provision required to be established under the *rules* in *PRU* 7.5.

equity market adjustment ratio	(1) (in relation to the *resilience capital requirement*) has the meaning set out in *PRU* 4.2.19R. (2) (in relation to the *market risk* scenario for the *risk capital margin* of a *with-profits fund*) has the meaning set out in *PRU* 7.4.71R.
final bonus	(in relation to a *with-profits insurance contract*) a discretionary payment which might be made by a *long-term insurer*, in addition to the guaranteed benefits, when the benefits under the *with-profits insurance contract* become payable.
financial instrument	as defined in Annex B of the *Investment Services Directive*, the following instruments: (a) (i) transferable securities; (ii) units in collective investment undertakings; (b) money-market instruments; (c) financial futures contracts, including equivalent cash-settled instruments; (d) forward interest rate agreements (FRAs); (e) interest rate, currency and equity swaps; and (f) options to acquire or dispose of any of the instruments in (a) to (e), including equivalent cash-settled instruments (including in particular options on currency and options on interest rates).
financial year in question	(for the purposes of *PRU* 7.2 and of the definition of *non-directive insurer*) the last *financial year* to end before the date on which the latest accounts of the *insurer* are required to be deposited with the *FSA*; the preceding *financial year* and previous *financial years* are construed accordingly.
financing cost amount	(in relation to a *share*, *debenture* or other investment in, or external contribution to the capital of, a *firm*) an amount that represents a reasonable estimate of the part of the *coupon* on that instrument that reflects the cost of financing generally but excludes costs reflecting factors relating to the issuer, guarantor or other person to whom the instrument creates an exposure.
firm in run-off	a *firm* whose *Part IV permission* has been varied so as to remove the *regulated activity* of *effecting contracts of insurance*.
future policy-related liabilities	(in relation to a *with-profits fund*) the future *policy*-related liabilities of the *with-profits fund* calculated in accordance with the *rules* in *PRU* 7.4.137R to *PRU* 7.4.189G.
GCR	*group capital resources*.

GCRR	*group capital resources requirement.*
general insurance capital requirement	the highest of the *premiums amount*, *claims amount* and *brought forward amount* as set out in *PRU* 7.2.
general insurance liabilities	insurance liabilities arising from *general insurance business*.
GICR	*general insurance capital requirement.*
gross adjusted claims amount	(for the purposes of *PRU* 7.2) an amount, as defined in *PRU* 7.2.60R to *PRU* 7.2.65G, used in calculating the *claims amount.*
gross adjusted premiums amount	(for the purposes of *PRU* 7.2) an amount as defined in *PRU* 7.2.56R to *PRU* 7.2.59G, used in calculating the *premiums amount*.
gross earned premiums	(in relation to a *financial year)* such proportion of *gross written premiums* as is attributable to risk borne by the *insurer* during that *financial year*.
gross leverage	the ratio of total assets to total equity.
gross written premiums	the amounts required by the *insurance accounts rules* to be shown in the profit and loss account of an *insurer* at general business technical account item I.1.(a), or for *class IV insurance business*, at long-term business technical account item II.1(a).
group capital resources	in relation to an *undertaking* in *PRU* 8.3.17R, that *undertaking's* group capital resources as calculated in accordance with *PRU* 8.3.36R.
group capital resources requirement	in relation to an *undertaking* in *PRU* 8.3.17R, that *undertaking's* group capital resources requirement as calculated in accordance with *PRU* 8.3.33R.
IBNR	(in relation to *claims* (as defined for the purposes of *PRU*, *LLD*, *SUP* and *TC*)) *claims* that have been incurred but not reported arising out of events that have occurred by the balance sheet date but have not been reported to the *insurance undertaking* at that date.
implicit items	(in relation to *long-term insurance business*) economic reserves arising in respect of future profits, *zillmerising* or hidden reserves as more fully described in *PRU* 2 Ann 2G.
index-linked benefits	benefits: (a) provided for under a *linked long-term contract of insurance*; and (b) determined by reference to an index of the value of property of any description (whether specified in the contract or not).
index-linked liabilities	insurance liabilities in respect of *index-linked benefits*.

individual capital resources requirement	has the meaning in *PRU* 8.3.34R.
initial coupon rate	(in relation to a *tier one instrument*) the *coupon* rate of the instrument at the time it is issued.
initial credit spread	(in relation to a *tier one instrument*) the *initial coupon rate* less the *original financing cost amount*, and where the resulting amount is a negative figure, the initial credit spread is deemed to be zero.
initial fund	the items of capital which are available to a *mutual* at *authorisation*.
innovative tier one capital	an item of capital that is stated in stage C of the table in *PRU* 2.2.14R to be innovative tier one capital.
innovative tier one capital resources	the amount of *capital resources* at stage C of the table in *PRU* 2.2.14R.
innovative tier one instrument	a *potential tier one instrument* that is stated in *PRU* 2.2.52R to *PRU* 2.2.69R to be an innovative instrument.
insurance business grouping	a grouping comprising descriptions of *general insurance business* determined in accordance with *PRU* 7.5.12R.
insurance death risk capital component	one of the components of the *long-term insurance capital requirement* as set out in *PRU* 7.2.81R to *PRU* 7.2.83R.
insurance expense risk capital component	one of the components of the *long-term insurance capital requirement* as set out in *PRU* 7.2.88R.
insurance group	(1) an *insurance parent undertaking* and its *related undertakings*; or (2) a *participating insurance undertaking* (not within (1)) and its *related undertakings*.
insurance health risk capital component	one of the components of the *long-term insurance capital requirement* as set out in *PRU* 7.2.85R and *PRU* 7.2.86R.
insurance market risk capital component	one of the components of the *long-term insurance capital requirement* as set out in *PRU* 7.2.89R.
insurance parent undertaking	a *parent undertaking* which is: (a) a *participating insurance undertaking* which has a *subsidiary undertaking* that is an *insurance undertaking*; or (b) an *insurance holding company* which has a *subsidiary undertaking* which is an *insurer*; or (c) an *insurance undertaking* (not within (a)) which has a *subsidiary undertaking* which is an *insurer*.
insurance-related capital	a component of the calculation of the *ECR* for a *firm* carrying on

requirement — *general insurance business* as set out in *PRU* 7.2.76R to *PRU* 7.2.79R.

liquidity risk — the risk that a *firm*, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

long-term admissible asset — a *long-term insurance asset* which is an *admissible asset*.

long-term insurance asset — has the meaning set out in *PRU* 7.6.21R.

long-term insurance capital requirement — (in relation to a *firm* carrying on *long-term insurance business*) an amount of *capital resources* that the *firm* must hold calculated in accordance with *PRU* 2.1.32R.

long-term insurance fund — has the meaning set out in *PRU* 7.6.22R.

long-term insurance liabilities — insurance liabilities arising from *long-term insurance business*.

lower tier two capital resources — the sum calculated at stage H of the calculation in *PRU* 2.2.14R.

lower tier two instrument — an item of capital that meets the conditions in *PRU* 2.2.108R and is eligible to form part of a *firm's lower tier two capital resources.*

LTICR — *long-term insurance capital requirement*.

market risk — (in relation to a *firm)* the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.

MCR — *minimum capital requirement*.

member contribution — any paid up contribution by a member of a *mutual* where the members' accounts meet the following criteria:

(a) the memorandum and articles of association or other constitutional documents must stipulate that payments may be made from these accounts to members only in so far as this does not cause the *firm's capital resources* to fall below the required level, or, if after dissolution of the *firm*, all the *firm's* other debts have been settled;

(b) the memorandum and articles of association or other constitutional documents must stipulate, with respect to the payments referred to in (a) made for reasons other than the individual termination of membership, that the *FSA* must be notified at least one month in advance of the intended date of such payments; and

(c) the *FSA* must be notified of any amendment to the relevant provisions of the memorandum and articles of association or other constitutional documents.

minimum capital requirement	an amount of *capital resources* that a *firm* must hold as set out in *PRU* 2.1.21R and *PRU* 2.1.22R.
mutual	an *insurer* which: (a) if it is a *body corporate* has no *share* capital (except a wholly owned *subsidiary* with no *share* capital but limited by guarantee); or (b) is a *registered friendly society* or *incorporated friendly society*; or (c) is a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies (Northern Ireland) Act 1969.
net earned premiums	*gross earned premiums,* less *reinsurance premiums* earned.
net leverage	the ratio of total assets, less those bought under reverse *repo* arrangements, to total equity.
net premium	the *premium* that is calculated to provide the basic sum assured under a *with-profits insurance contract* taking into consideration only the mortality and interest rate risks and using the same assumptions as used in the calculation of the *mathematical reserves*.
netting	a process by which the claims and obligations between two counterparties are offset against each other to leave a single net sum.
net written premiums	*gross written premiums,* less *reinsurance premiums* payable under *reinsurance* ceded.
non-credit equalisation provision	the provision required to be established under *PRU* 7.5.17R.
non-directive mutual	a *mutual* that falls into (d), (e) or (g) of the definition of a *non-directive insurer*.
non-EEA direct insurer	an *insurer*, other than a *pure reinsurer*, whose head office is not in an *EEA State.*
non-EEA insurer	an *insurer* whose head office is not in an *EEA State*.
non-profit fund	a *long-term insurance fund* which is not a *with-profits fund*.
non-profit insurance business	the business of *effecting* or *carrying out non-profit insurance contracts.*
non-profit insurance contract	a *long-term insurance contract* which is not a *with-profits insurance contract.*
non-proportional	see *proportional reinsurance treaty*.

reinsurance treaty

nuclear risks	risks falling within any *class* of *general insurance business* and arising in connection with the construction and use of any nuclear reactor or nuclear installation or the carriage of any nuclear matter.
original financing cost amount	(in relation to a *share*, *debenture* or other investment in, or external contribution to the capital of, a *firm* that is subject to a *step-up*) the *financing cost amount* for the instrument for a period beginning on or near the date of issue of the instrument and ending on or near the date of the first *step-up.*
participating insurance undertaking	an *insurer* which: (a) has a *subsidiary undertaking* that is an *insurance undertaking*; or (b) holds a *participation* in an *insurance undertaking*; or (c) is linked to an *insurance undertaking* by a *consolidation Article 12(1) relationship.*
permanent share capital	an item of capital that is stated in *PRU* 2.2.36R to be permanent share capital.
potential tier one instrument	an item of capital that falls into *PRU* 2.2.27R.
preference share	(in *PRU*) a *share* with rights, in respect of capital or dividends, superior to those of ordinary *shares*.
premiums amount	(for the purposes of *PRU* 7.2), an amount, as defined in *PRU* 7.2.45R, used in the calculation of the *general insurance capital requirement.*
property-linked benefits	benefits other than *index-linked benefits* provided for under a *linked long-term contract of insurance*.
property-linked liabilities	insurance liabilities in respect of *property-linked benefits*.
proportional reinsurance treaty	a *reinsurance* treaty under which a pre-determined proportion of each *claim* payment by the cedant under *policies* subject to the treaty is recoverable from the *reinsurer*; *non-proportional reinsurance treaty* is construed accordingly.
proxy capital resources requirement	the *minimum capital requirement* to which an *undertaking* would have been subject if it had *permission* for each activity it carries on anywhere in the world, so far as that activity is a *regulated activity*.
real estate market adjustment ratio	has the meaning set out, in relation to the *resilience capital requirement*, in *PRU* 4.2.21R.
realistic basis life firm	a *firm* to which *PRU* 2.1.15R applies (and which is therefore required to calculate a *with-profits insurance capital component* in accordance with *PRU* 7.4).

realistic current liabilities	(in relation to a *with-profits fund)* the realistic current liabilities of the *with-profits fund* calculated in accordance with *PRU* 7.4.190R.
realistic excess capital	(in relation to a *with-profits fund*) the excess, if any, of the *realistic value of assets* for the *with-profits fund* over the sum of the *realistic value of liabilities* and the *risk capital margin* for that fund, calculated in accordance with *PRU* 7.4.32R.
realistic value of assets	(in relation to a *with-profits fund*) has the meaning set out in *PRU* 7.4.33R.
realistic value of liabilities	(in relation to a *with-profits fund*) the sum of the *with-profits benefit reserve*, the *future policy related liabilities* and the *realistic current liabilities* for the *with-profits fund*.
regulated related undertaking	a *related undertaking* that is any of the following: (a) a *regulated entity*; or (b) an *insurance undertaking* which is not a *regulated insurance entity*; or (c) an *asset management company*; or (d) a *financial institution* which is neither a *credit institution* nor an *investment firm*; or (e) a *financial holding company*; or (f) an *insurance holding company*.
regulatory basis only life firm	a *firm* carrying on *long-term insurance business* which is not a *realistic basis life firm*.
regulatory current liabilities	(in relation to a *with-profits fund*) the regulatory current liabilities of the *with-profits fund* calculated in accordance with *PRU* 7.4.30R.
regulatory excess capital	(in relation to a *with-profits fund*) has the meaning set out in *PRU* 7.4.23R.
regulatory surplus value	has the meaning set out in *PRU* 1.3.36R.
regulatory value of assets	(in relation to a *with-profits fund*) has the meaning set out in *PRU* 7.4.24R.
regulatory value of liabilities	(in relation to a *with-profits fund*) has the meaning set out in *PRU* 7.4.29R.
reinsurance	includes retrocession.
reinsurer	an *insurer* whose business includes effecting or carrying out contracts of *reinsurance*; includes a retrocessionnaire.
related undertaking	in relation to an *undertaking* ("U"): (a) any *subsidiary undertaking* of U; or (b) any *undertaking* in which U or any of U's *subsidiary*

undertakings holds a *participation*; or

(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 — for the purposes of *PRU* 7.3.43R, the sum under a *contract of insurance* which is:

(a) unless (b) applies:

(i) for whole life assurances, the sum assured;

(ii) for *contracts of insurance* where a sum is payable on maturity (including contracts 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 sum payable at the end of the contract period; and

(v) for *linked long-term contracts of insurance*, 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 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;

but excluding in all cases any vested reversionary bonus; and

(b) for temporary assurances, the sum assured on the *actuarial valuation date*.

relevant insurer — in relation to a *community co-insurance operation*, an *insurer* which is concerned in the operation but is not the *leading insurer*.

resilience capital requirement — the capital component for *long-term insurance business* calculated in accordance with the *rules* in *PRU* 4.2.9G to *PRU* 4.2.26R.

return — the documents required (taken together) to be deposited under *IPRU(INS) rule* 9.6(1).

risk capital margin	the risk capital margin for a *with-profits fund* calculated in accordance with the *rules* in *PRU* 7.4.43R to *PRU* 7.4.103G.
Solvency 1 Directive	the Directive of the European Parliament and of the Council of 5 March 2002 amending Council Directive 79/267/EEC as regards the solvency margin requirements for life assurance undertakings (No. 2002/12/EC).
specific risk	unique risk that is due to the individual nature of an asset and can potentially be diversified.
spread risk	the risk that a spread (that is, the difference in price or yield) between two variables will change.
step-up	(1) (in relation to a *tier one instrument*) has the meaning set out in *PRU* 2.2.74R; and (2) (in relation to a *tier two instrument*) has the meaning set out in *PRU* 2.2.118R.
Swiss general insurer	a *Swiss general insurance company* which has *permission* to *effect* or *carry out contracts of insurance* of a kind which is subject to the *Swiss Treaty Agreement*.
tier one capital resources	the sum calculated at stage F of the calculation in *PRU* 2.2.14R.
tier one instrument	an item of capital that falls into *PRU* 2.2.27R and is eligible to form part of a *firm's tier one capital resources.*
tier two instrument	an item of capital that meets the conditions in *PRU* 2.2.101R or *PRU* 2.2.108R and is eligible to form part of a *firm's tier two capital resources.*
tier two capital resources	the sum calculated at stage I of the calculation in *PRU* 2.2.14R.
total group tier one capital	the sum calculated at stage A of the calculation in *PRU* 8.3.43R.
total group tier two capital	the sum calculated at stage B of the calculation in *PRU* 8.3.43R.
UK MCR	the *MCR* calculated in accordance with *PRU* 7.6.44R by a *non-EEA direct insurer* (except a *UK-deposit insurer*, an *EEA-deposit insurer* or a *Swiss general insurer*) in relation to business carried on by the *firm* in the *United Kingdom*.
ultimate EEA insurance parent undertaking	an *EEA insurance parent undertaking* that is not itself the *subsidiary undertaking* of another *EEA insurance parent undertaking.*
ultimate insurance parent undertaking	an *insurance parent undertaking* that is not itself the *subsidiary undertaking* of another *insurance parent undertaking.*

unearned premium	the amount set aside by a *firm* at the end of its *financial year* out of *premiums* in respect of risks to be borne by the *firm* after the end of the *financial year* under *contracts of insurance* entered into before the end of that year.
unpaid initial fund	part of the *initial fund* of a *mutual* which the *mutual* is prevented from including in its *tier one capital resources* as *permanent share capital* by reason of *PRU* 2.2.29R because it is not fully paid.
unsecured debt	debt that does not fall within the definition of *secured debt*.
upper tier two capital resources	the sum calculated at stage G of the calculation in *PRU* 2.2.14R.
upper tier two instrument	an item of capital that meets the conditions in *PRU* 2.2.101R and is eligible to form part of a *firm's upper tier two capital resources.*
volatility risk	the potential loss due to fluctuations in implied *option* volatilities.
with-profits benefits reserve	(in relation to a *with-profits fund*) the with-profits benefits reserve for the *with-profits fund* calculated in accordance with the *rules* in *PRU* 7.4.116R to *PRU* 7.4.135G.
with-profits insurance business	the business of *effecting* or *carrying out with-profits insurance contracts.*
with-profits insurance capital component	the capital component for *with-profits insurance business* of a *realistic basis life firm* calculated in accordance with *PRU* 7.4.
with-profits insurance contract	a *long-term insurance contract* which provides for the *policyholder* to be eligible to participate in any surplus arising on the whole of, or any part of, the *insurer's long-term insurance business*.
with-profits insurance liabilities	insurance liabilities arising from *with-profits insurance business.*
WPICC	*with-profits insurance capital component*.
zillmerising	the method known by that name for modifying the *net premium* reserve method of valuing a *long-term insurance contract* by increasing the part of the future *premiums* for which credit is taken so as to allow for initial expenses.

Part 2: Amended definitions

Amend the following definitions as shown:

actuarial health insurance

(1) (in *LLD*) …

(2) (in *PRU*) (in the context of the *rules* in *PRU* 7.2 concerning the calculation of the *general insurance capital requirement*), health insurance which meets all the conditions set out in *PRU* 7.2.72R.

admissible asset

(1) (in *LLD*) …

(2) (in *PRU*) an asset that falls into one or more categories in *PRU* 2 Ann 1R.

approved counterparty

~~an approved counterparty as defined in *IPRU(INS)*.~~

any of the following:

(a) an *approved credit institution*; or

(b) a *firm* whose *permission* includes *dealing in investments as principal* with respect to *derivatives* which are not *listed*; or

(c) an *ISD investment firm* whose authorisation (as referred to in article 3 of the *ISD*) authorises it to carry on activities of the kind referred to in (b); or

(d) in respect of a transaction involving a new issue of *securities* which are to be *listed*, the *issuer* or an *ISD investment firm* acting on behalf of the *issuer*.

approved credit institution

~~an approved credit institution as defined in *IPRU(INS)*.~~

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

(1) (in ~~COLL and CIS~~ *COLL* and *CIS*) …

(2) (in *PRU*) a *derivative* in respect of which the conditions in *PRU* 4.3.5R are met.

approved financial institution

~~an approved financial institution as defined in *IPRU(INS)*.~~

any of the following:

(a) the European Central Bank;

(b) the central bank of an *EEA State*;

(c) the International Bank for Reconstruction and Development;

(d) the European Bank for Reconstruction and Development;

(e) the International Finance Corporation;

(f) the International Monetary Fund;

(g) the Inter-American Development Bank;

(h) the African Development Bank;

(i) the Asian Development Bank;

(j) the Caribbean Development Bank;

(k) the European Investment Bank;

(l) the European Community; and

(m) the European Atomic Energy Community.

approved security	(1)	(in *COLL* and *CIS*) ...
	(2)	(in *LLD and PRU*) any of the following: …
broker	(in *MAR* and *PRU*) any person when dealing as agent.	
~~*capital at risk*~~	~~Capital at risk as defined in *IPRU(INS)* 2.5R(7).~~	
claim	(1)	(in *COMP*)…
	(2)	(in *PRU*, *LLD, SUP* and *TC*) …
class	(1)	(in *AUTH*, ~~*IPRU(FSOC)*, *IPRU(INS)*~~, *PRU*, *LLD* and *SUP*) (in relation to a *contract of insurance*) any class of *contract of insurance* listed in Schedule 1 to the *Regulated Activities Order* (Contracts of insurance) and references to:
		(a) *general insurance business class* 1, 2, 3, etc. are references to *contracts of insurance* of

the kind mentioned in the corresponding numbered paragraph in Part I of Schedule 1 to that Order or, as the context may require, to the *effecting* or *carrying out* of *contracts of insurance* of that kind; and

(b) *long-term insurance business class* I, II, III, etc. are references to *contracts of insurance* of the kind mentioned in the corresponding numbered paragraph in Part II of Schedule 1 to that Order or, as the context may require, to the *effecting* or *carrying out* of *contracts of insurance* of that kind.

	(2)	(in *COLL* and *CIS*): …
	(3)	(in *COB*) …
collateral	(1)	(in *COLL* and *CIS*) …
	(2)	(in *COB* and *CASS*) …
	(3)	(in *PRU*) an asset that is subject to a mortgage, charge, pledge or other security interest.
counterparty	(1)	(in *LLD*) …
	(2)	(in *PRU*) (in relation to an *insurer*):

(a) any one individual; or

(b) any one unincorporated body of *persons*; or

(c) any *company* which is not a member of a *group*; or

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

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

in which the *insurer*, or any of its *subsidiary undertakings*, has made *investments* or against whom, or in respect of whom, it, or any of its *subsidiary undertakings*, has rights or obligations under a contract entered into by the *insurer* or any of its *subsidiary undertakings*.

defined benefits pension scheme

(1) (except in *PRU*) a *pension policy* or *pension contract* under which the only *money-purchase benefits* are benefits ancillary to other benefits which are not *money-purchase benefits*.

(2) (in *PRU*) an *occupational pension scheme* under which the only *money-purchase benefits* are benefits ancillary to other benefits which are not *money-purchase benefits*.

discounting

(in *LLD* and in *PRU*) discounting or deductions to take account of investment income as set out in paragraph 48 of the *insurance accounts rules*.

EEA insurer

~~(in *COB*)~~ an *insurer*, other than a *pure reinsurer* or a *non-directive insurer*, whose head office is in any *EEA State* except the *United Kingdom* and which has received *authorisation* under article 6 of the *First Life Directive* or article 4 of the *Consolidated Life Directive* or article 6 of the *First Non-Life Directive* from its *Home State Regulator*.

financial year

(1) (in *DISP*) …

(2) (in *LLD*) …

(3) (in *PRU*) the period at the end of which the balance of the accounts of the *insurer* is struck, or, if no balance is struck, the calendar year.

guarantee fund

~~(in relation to an *insurer*) an amount equal to the greater of one third of the *required margin of solvency* and the *minimum guarantee fund*, as set out in *IPRU(INS)* 2.9R.~~

(1) (a) subject to (1)(b), in relation to a *firm* carrying on *general insurance business*, the higher of one third of the *general insurance capital requirement* and the *base capital resources requirement* applicable to that *firm*;

(b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under *PRU* 7.6, for the purposes of that section the reference in (1)(a) to the *general insurance capital requirement* is replaced by *UK MCR* or *EEA MCR*, as appropriate.

(2) (a) subject to (2)(b), in relation to a *firm* carrying on *long-term insurance business*, the higher of one third of the *long-term insurance capital requirement* and the *base capital resources requirement* applicable to that *firm*;

	(b) where the *firm* is required to calculate a *UK MCR* or an *EEA MCR* under *PRU* 7.6, for the purposes of that section the reference in (2)(a) to the *long-term insurance capital requirement* is replaced by *UK MCR* or *EEA MCR*, as appropriate.
Insurance Directives	the *First Life Directive*, *Second Life Directive*, ~~and~~ *Third Life Directive* and *Consolidated Life Directive* and the *First Non-Life Directive*, *Second Non-Life Directive* and *Third Non-Life Directive*.
listed	(1) (except in *LLD* and *PRU*) included in an *official list*. (2) (in *LLD* and *PRU*) (a) included in an *official list*; or (b) in respect of which facilities for *dealing* on a *regulated market* have been granted.
lower tier two capital	(1) (in *ELM*) ... (2) (in *PRU*) an item of capital that is specified in stage H of the table in *PRU* 2.2.14R.
management expenses	(1) (except in *PRU*) … (2) (in *PRU*) in relation to *long-term insurance business*, means all expenses, other than *commission*, incurred in the administration of an *insurer* or its business.
~~*margin of solvency*~~	~~the excess of the value of an *insurer's* assets over the amount of its liabilities, that value and amount being determined in accordance with *IPRU(INS)* and *IPRU(FSOC)*.~~
mathematical reserves	(1) (in *LLD*) … (2) (in *PRU*) the provision made by an *insurer* to cover liabilities (excluding liabilities which have fallen due and liabilities arising from *deposit back arrangements*) arising under or in connection with *long-term insurance contracts*.
minimum guarantee fund	(in *LLD*) a minimum guarantee fund as defined in *IPRU(INS)* 2.9 as that *rule* was in force on 30 December 2004.

non-directive friendly society …

(f) (i) a *friendly society* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other ~~mutuals~~ *mutuals* (including *friendly societies*); and

(ii) the *mutuals* providing the *reinsurance* or the guarantee are subject to the rules of the *First Non-Life Directive*;

…

non-directive insurer ~~a non-directive insurer as defined in *IPRU(INS)*.~~

(a) an *insurer* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions are determined on a flat-rate basis; or

(b) an *insurer* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an *undertaking* or group of *undertakings,* or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the *commitments* arising from such operations are fully covered at all times by *mathematical reserves*); or

(c) an *insurer* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind; or

(d) a *mutual* (carrying on *long-term insurance business*) whose:

(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and

(ii) annual gross *premium* income (other than from contracts of *reinsurance*) has not exceeded 5 million Euro for each of the *financial year in question* and the two *previous financial years*;

or

(e) a *mutual* (carrying on *general insurance business*) whose:

(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits;

(ii) business does not cover liability risks, other than *ancillary risks*, or credit or suretyship risks;

(iii) gross *premium* income (other than from contracts of *reinsurance*) for the *financial year in question* did not exceed 5 million Euro; and

(iv) members provided at least half of that gross *premium* income; or

(f) an *insurer* whose *insurance business* (other than *reinsurance*) is:

(i) restricted to the provision of assistance for persons who get into difficulties while travelling, while away from home or while away from their permanent residence;

(ii) carried out exclusively on a local basis and consists only of benefits in kind; and

(iii) such that the gross *premium* income from the provision of assistance in the *financial year in question* did not exceed 200,000 Euro; or

(g) (i) a *mutual* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*); and

(ii) the *mutuals* providing the *reinsurance* or the guarantee are subject to the rules of the *First Non-Life Directive*.

premium (1) …

(2) (except in *ICOB* and *CASS* 5) (in relation to a *long-term insurance contract*) ~~a payment under the contract~~ the consideration payable under the contract by the *policyholder* to the *insurer*; …

…

prescribed pricing basis

(in relation to a *derivative* contract, or *quasi-derivative contract*), the pricing basis set out in *IPRU(INS)* 4.12R(8) (Derivative contracts) as that *rule* was in force on 30 December 2004.

quasi-derivative contract or *quasi-derivative*

a contract or asset having the effect of a *derivative* contract.

regulated institution

~~subject to the requirements of *IPRU* and as more fully defined in *IPRU*, an *insurance undertaking*, *credit institution*, *friendly society* or *investment firm*.~~

any of the following:

(a) an *EEA insurer* or *UK insurer*; or

(b) an *approved credit institution*; or

(c) a *friendly society* (not within (a)) which is authorised to carry on *insurance business*; or

(d) a *firm* whose *permission* includes *dealing in investments as principal* with respect to *derivatives* which are not *listed*; or

(e) an *ISD investment firm* whose authorisation (as referred to in article 3 of the *ISD*) authorises it to carry on activities of the kind referred to in (d).

regulated market

(1) (a) (as defined in article 1 of the *ISD*) … ; and

(b) (in *SUP* 17 and, unless the context otherwise requires, elsewhere in the Handbook) …

(2) (in *PRU*) 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 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 *Investment Services Directive*; 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*.

~~*required margin of solvency*~~	~~a *margin of solvency* required by *IPRU(INS)* or *IPRU(FSOC)*.~~
~~*required minimum margin*~~	~~for an *insurer*, the minimum margin required by *IPRU(INS)*.~~
scheme of operations	a scheme which: (a) … (b) contains the information required under *SUP* App ~~2.9.1R~~ 2.12.1R(Content of a scheme of operations).
secured debt	(1) (in *LLD*) … (2) (in *PRU*) a debt fully secured on: (a) assets whose value at least equals the amount of debt; or (b) a letter of credit or guarantee from an *approved counterparty*.
technical provision	(1) (in *LLD*) a technical provision as defined in the *insurance accounts rules*. (2) (in *PRU*) a technical provision established: (a) for *general insurance business*, in accordance with *PRU* 7.2.12R; and (b) for *long-term insurance business*, in accordance with *PRU* 7.2.16R.
tier one capital	(1) (in *ELM*) …

	(2)	(in *PRU*) an item of capital that is specified in stages A, B or C of the table in *PRU* 2.2.14R.
tier two capital	(1)	(in *ELM*) …
	(2)	(in *PRU*) an item of capital that is specified in stages G or H of the table in *PRU* 2.2.14R.
UK-deposit insurer	~~a UK-deposit insurer as defined in *IPRU(INS)*, which is in summary: a non-EEA insurer which has made a deposit in the United Kingdom in accordance with *IPRU(INS)* 8.1.~~ a *non-EEA insurer* that has made a deposit in the *United Kingdom* under article 23 of the *First Non-Life Directive* in accordance with article 26 of that Directive or under article 51 of the *Consolidated Life Directive* in accordance with article 56 of that Directive.	
UK insurer	~~a UK insurer, as defined in *IPRU(INS)*, which is in summary: an insurer, other than a pure reinsurer or a non-directive insurer, whose head office is in the United Kingdom.~~ an *insurer*, other than a *pure reinsurer* or a *non-directive insurer*, whose head office is in the *United Kingdom*.	
upper tier two capital	(1)	(in *ELM*) …
	(2)	(in *PRU*) an item of capital that is specified in stage G of the table in *PRU* 2.2.14R.
with-profits fund	(1)	for the purposes of *COB*: …
	(2)	for the purposes of *PRU*, a *long-term insurance fund* in which *policyholders* are eligible to participate in any *established surplus*.

ADDENDUM

INTEGRATED PRUDENTIAL SOURCEBOOK (INSURERS AND OTHER AMENDMENTS) (CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2004

In Annex G to this instrument:

IPRU(INS) rule 9.29(2) is amended as follows, rather than as shown in the instrument:

(2) In this rule, **derivative contract** includes a contract or asset which has the effect of a *derivative contract* ~~within the meaning of rule 4.13~~ and, for the purposes of (1)(h), such a contract or asset must be treated as requiring a significant provision or falling within ~~rule 4.12 (2), or~~ the definition of *permitted derivative contract*, as appropriate, if it has the effect of a *derivative contract* which would require a significant provision or fall within that ~~provision~~ definition.

The definition of "permitted derivative contract" in IPRU(INS) Chapter 11, Part I is amended as follows, rather than as shown in the instrument:

permitted derivative contract	~~(1)~~ for the purpose of **Appendix 3.2**, a *derivative* ~~*contract*~~ or *quasi-derivative* ~~(a) which is 'covered' and -~~ ~~(i) which is held in connection with 'property' for the purposes of reduction of investment risk or efficient portfolio management, or~~ ~~(ii) which has the effect of a *permitted derivative contract* held in connection with 'property' for such purposes; and~~ ~~(b) which satisfies the conditions in rules 4.12(6) to (8) except that the references in rule 4.12 to 'an asset for the valuation of which provision is made in the *Valuation of Assets Rules*' is construed as a reference to *permitted connected property*;~~ which satisfies the requirements of *PRU* 4.3 with the exception of *PRU* 4.3.18R, as applied in relation to assets covering liabilities in respect of *linked long-term contracts of insurance,* amended as follows: (a) in *PRU* 4.3.5R and *PRU* 4.3.36R, "For the purpose of *PRU* 2 Ann 1R (Admissible assets in

	insurance)" is replaced by "For the purposes of *IPRU(INS)* rules 3.6 and 3.7 and Appendix 3.2"; (b) in *PRU* 4.3.6R(2) and (3), *PRU* 4.3.7R(1) and (2), *PRU* 4.3.17R(1) and *PRU* 4.3.36R(1) "*admissible assets*" is replaced by "*permitted connected property*"; (c) *PRU* 4.3.12R(2) and (3) are replaced by: "(2) (where they are held to cover *index-linked liabilities)* might: (a) not be appropriate cover for those liabilities as required by *PRU* 4.2.58R; or (b) fall in value; and (3) (where they are held to cover *property-linked liabilities)* might: (a) not be appropriately selected in accordance with contractual and constructive liabilities as required by *PRU* 7.6.36R and appropriate cover for those liabilities as required by *PRU* 4.2.57R; or (b) fall in value". ~~(2) **property** is -~~ ~~(a) *permitted connected property*, not being a contract or asset having the effect of a *derivative contract*; or~~ ~~(b) a *permitted derivative contract* or contract or asset having the effect of a *permitted derivative contract* either of which when taken together with the *permitted derivative contract* mentioned in (1), has the effect that the *insurer* holds either *permitted connected property* or a *permitted derivative contract* in connection with such property; and~~ ~~(3) a *derivative contract* is **covered** if it would not require a significant provision to be made in respect of it pursuant to rule 5.3 if it were a *derivative contract* to which the *Valuation of Asset Rules* applied~~

Insert as new text in IPRU(INS), Chapter 12, between TR5 and TR7, the following transitional provision, TR6:

6	*IPRU(INS) rule* 9.31(b) and Appendix 9.4A, paragraphs 4(2), 6(3) and 13	R	(1) Subject to compliance with (2), in relation to an *insurer's financial year* ending on or before 29 June 2005, the *insurer* is not required to include in the valuation report required by *IPRU(INS) rule* 9.31(b), and forming part of its *return* for that *financial year*, the information (the "omitted information") required by paragraphs 4(2), 6(3) and 13 of Appendix 9.4A to *IPRU(INS)*. (2) The *insurer* must instead report the omitted information to the *FSA*, at the same time as it deposits its *return* for that *financial year* with the *FSA* in accordance with *IPRU(INS) rule* 9.6(1)(b), in a way that: (a) complies with the requirements for written notifications to the *FSA* in *SUP* 15.7.4R and *SUP* 15.7.5R; and (b) otherwise complies with the relevant paragraphs of Appendix 9.4A to *IPRU(INS)*.	From 31 December 2004 until 29 June 2005	31 December 2004

Addendum
22 December 2004