

**PRUDENTIAL REQUIREMENTS FOR INSURERS (AMENDMENT NO 3)
INSTRUMENT 2008**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138 (General rule-making power);
 - (b) section 141 (Insurance business rules);
 - (c) section 150(2) (Actions for damages);
 - (d) section 156 (General supplementary powers);
 - (e) section 157(1) (Guidance); and
 - (f) section 340 (Appointment); and
 - (2) the other powers and related provisions listed in Schedule 4 to the General Provisions (Powers exercised) of the Handbook.
- 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 on 31 December 2008. The amendments to IPRU(FSOC) and IPRU(INS) apply to all FSA returns for financial years ending on or after 31 December 2008.

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)
Glossary of definitions	Annex A
General Prudential sourcebook (GENPRU)	Annex B
Prudential sourcebook for Insurers (INSPRU)	Annex C
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex D
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex E

Citation

- E. This instrument may be cited as the Prudential Requirements for Insurers (Amendment No 3) Instrument 2008.

By order of the Board
4 December 2008

Annex A

Amendments to the Glossary of definitions

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

<i>approved index</i>	in relation to <i>permitted links</i> : ... (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 Consolidation Directive <u>Zone A country</u> ; or ...
<i>guarantee fund</i>	(1) (a) ... (b) where the <i>firm</i> is required to calculate a <i>UK MCR</i> or an <i>EEA MCR</i> under INSPRU 1.1 <u>INSPRU 1.5</u> , for the purposes of that section in (1)(a) the reference to the <i>general insurance capital requirement</i> is replaced by <i>UK MCR</i> or <i>EEA MCR</i> , as appropriate, and the reference to the <i>base capital resources requirement</i> is replaced by the amount which is one half of the <i>base capital resources requirement</i> applicable to the <i>firm</i> set out in PRU 2.1.26 R <u>GENPRU 2.1.30R</u> . (2) (a) ... (b) where the <i>firm</i> is required to calculate a <i>UK MCR</i> or an <i>EEA MCR</i> under INSPRU 1.1 <u>INSPRU 1.5</u> , for the purposes of that section in (2)(a) the reference to the <i>long-term insurance capital requirement</i> is replaced by <i>UK MCR</i> or <i>EEA MCR</i> , as appropriate, and the reference to the <i>base capital resources requirement</i> is replaced by the amount which is one half of the <i>base capital resources requirement</i> applicable to the <i>firm</i> set out in GENPRU 2.1.29R <u>2.1.30R</u> .
<i>regulated related undertaking</i>	a <i>related undertaking</i> that is any of the following: ... (f) an <i>insurance holding company</i> ; or . (g) an EEA ISPV .

Annex B

Amendments to the General Prudential sourcebook (GENPRU)

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

- 1.3.7 G In the case of an *insurer* or a *UK ISPV*, where assets or liabilities are securitised, *GENPRU* 1.3.4R only permits de-recognition where Financial Reporting ~~Standard 5 Standards~~ (or, where applicable, International Accounting ~~Standard 39 Standards~~) ~~permits permit~~ either de-recognition or the linked presentation. However, the *FSA* will consider granting a *waiver* to permit de-recognition in other circumstances provided that the *firm* can demonstrate that securitisation has effectively transferred risk.

...

- 2.1.30 R This table belongs to *GENPRU* 2.1.29R

<i>Firm category</i>	Amount: Currency equivalent of
...	
<i>Pure reinsurer excluding captive reinsurer</i>	€3.2 million
<i>Captive reinsurer</i>	€1 million

...

- 2.2.33 R Subject to *GENPRU* 2.2.34AR, An *an insurer* carrying on *long-term insurance business* must meet the higher of:

...

- 2.2.34 R Subject to *GENPRU* 2.2.34AR, An *an insurer* carrying on *general insurance business* must meet the higher of:

...

- 2.2.34A R *A pure reinsurer* carrying on both *long-term insurance business* and *general insurance business* must meet the higher of:

(1) $\frac{1}{3}$ of the sum of the *long-term insurance capital requirement* and the *general insurance capital requirement*; and

(2) the *base capital resources requirement*;

with the sum of the items listed at stages A (Core tier one capital), B (Perpetual non-cumulative preference shares), G (Upper tier two capital) and H (Lower tier two capital) in the *capital resources table* less the sum of the items listed at stage E (Deductions from tier one capital) in the *capital*

resources table.

2.2.35 R In ~~GENPRU 2.2.33R₂ and GENPRU 2.2.34R~~ and GENPRU 2.2.34AR:

...

where adjusted stage M means the amount calculated at stage M of the calculation in the *capital resources table* (Total capital after deductions) less the amount of any *innovative tier one capital* that is not treated as *upper tier two capital* for the purpose of ~~GENPRU 2.2.33R₂ or GENPRU 2.2.34R~~ or GENPRU 2.2.34AR, as the case may be.

2.2.36 G The ~~purposes~~ purpose of the requirements in ~~GENPRU 2.2.32R 2.2.33R to GENPRU 2.2.34R 2.2.34AR~~ is are to comply with the ~~Insurance Directives'~~ requirements of the Insurance Directives and the Reinsurance Directive that an insurer must maintain a guarantee fund of higher quality capital resources items and to ensure that at least 50% of the insurer's capital resources needed to meet its MCR provide maximum loss absorbency to protect the insurer from insolvency.

...

2.2.40 G ~~GENPRU 2.2.32R, GENPRU 2.2.37R and GENPRU 2.2.38R~~ give effect to the ~~Insurance Directives'~~ requirements of the Insurance Directives and the Reinsurance Directive that ~~an insurer's tier two capital resources must not exceed its tier one capital resources and that no more than 25% of an insurer's "required solvency margin" should consist of lower tier two capital resources~~ no more than 50% of the amount which is the lesser of the available solvency margin and the required solvency margin should consist of tier two capital resources and that no more than 25% of that amount should consist of lower tier two capital resources.

2.2.41 R An *insurer* (other than a *pure reinsurer*) that carries on both *long-term insurance business* and *general insurance business* must apply the relevant limits in ~~GENPRU 2.2.32R to GENPRU 2.2.38R~~ separately for each type of business.

...

2 Annex 7R Admissible assets in insurance

(1)	(A)	Investments that are, or amounts owed arising from the disposal of:
		...
	(d)	<i>units</i> in:
	(i)	<u>UCITS collective investment schemes falling within the UCITS Directive;</u>
		...
		...

...

Annex C

Amendments to the Prudential sourcebook for Insurers (INSPRU)

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

- 1.1.33 R For the purposes of *INSPRU* 1.1.30 R:
- ...
- (3) a ~~listed~~ security which is listed is to be treated as held in any country or territory where there is a *regulated market* on which the *security* is dealt; and
- (4) a *security* which is not a ~~listed security~~ is to be treated as held in the country or territory in which the *issuer* has its head office.

...

- 1.1.94 R The following *rules* and *guidance* apply to *managing agents* in accordance with *INSPRU* 8.1.4R:
- (1) ~~*INSPRU* 1.1.13G~~ 1.1.12R to *INSPRU* 1.1.20R (except *INSPRU* 1.1.12R(1));

...

...

- 1.2.25 G (1) A separate prospective valuation for each contract may identify contracts for which the value of future cash inflows under and in respect of the contract exceeds that of outflows. In these circumstances, the *firm* may calculate the *mathematical reserves* for that contract as having a negative value and treat that value as available to off-set *mathematical reserves* for other contracts which have a positive value when establishing the overall *mathematical reserves*.
- (2) In complying with *INSPRU* 1.1.34R or *INSPRU* 3.1.61AR, as applicable, with respect to the matching of assets and liabilities, *insurers* should consider the suitability for offset of contracts whose *mathematical reserves* are negative against liabilities on other contracts and only offset them if it is prudent to do so. While *INSPRU* 1.2.24R applies at a *firm* level, it may be relevant when assessing the prudence of the offset of contracts whose *mathematical reserves* are negative to consider the fact that contracts with negative *mathematical reserves* written outside a *with-profits fund* are not, for the purpose of *INSPRU* 1.1.27R, permitted to be offset against contracts with positive *mathematical reserves* written within that

~~with-profits fund. However, the Consolidated Life Directive requires that no contract should be valued at less than its guaranteed surrender value (see INSPRU 1.2.62AG). As a result, no contract with a guaranteed surrender value to which the Consolidated Life Directive applies should be valued as if it were an asset. Although the Reinsurance Directive does not require this treatment of contracts with guaranteed surrender values to be applied to pure reinsurers, the FSA's policy is that there should be equal treatment in this respect. INSPRU 1.2.62R makes further provision relating to the mathematical reserves to be established in respect of such contracts. When considering the impact that the amount payable on surrender may have on the valuation of a contract, a firm should have regard to INSPRU 1.2.71R.~~

1.2.25A G In addition, the Consolidated Life Directive requires that no contract should be valued at less than its guaranteed surrender value (see INSPRU 1.2.62AG). As a result, no contract with a guaranteed surrender value to which the Consolidated Life Directive applies should be valued as if it were an asset. Although the Reinsurance Directive does not require this treatment of contracts with guaranteed surrender values to be applied to pure reinsurers, the FSA's policy is that there should be equal treatment in this respect. INSPRU 1.2.62R makes further provision relating to the mathematical reserves to be established in respect of such contracts. When considering the impact that the amount payable on surrender may have on the valuation of a contract, a firm should have regard to INSPRU 1.2.71R.

...

1.3.180 G ...

- (3) A firm should calibrate the model to the current risk-free yield curve. Risk-free yields should be determined after allowing for credit and all other risks arising. ~~Firms~~ may have regard to any ~~guidance from the actuarial profession standards and guidance adopted or issued by the Board of Actuarial Standards~~ on the calculation of the risk-free yield but should not assume a higher yield than suggested by any such ~~standards and~~ guidance.

...

1.5.52 R For the purpose of INSPRU 1.5.48R and INSPRU 1.5.49R:

...

- (3) a ~~listed security~~ which is listed is to be treated as held in any country or territory where there is a *regulated market* in which the *security* is dealt; and
- (4) a *security* which is not a ~~listed security~~ is to be treated as held in the country or territory in which the *issuer* has its head office.

...

2.1.22 R ...

(4) In (3) a *firm's* business amount means the sum of:

(a) the *firm's* total gross *technical provisions* (that is, calculated gross of reinsurance);

...

...

(5B) In (3)(b)(ii) short term *deposit* means a *deposit* 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.

...

...

2.1.34 R In *INSPRU* 2.1.22R references to a *counterparty* exposure or an asset exposure do not include such an exposure arising resulting from reinsurance debts arising from reinsurance ceded and the reinsurer's share of technical provisions.

...

3.1.53 R (1) Subject to *INSPRU* 3.1.54R, a *firm* must hold *admissible assets* in each currency of an amount equal to at least 80% of the amount of its liabilities in that currency arising under or in connection with *contracts of insurance* (but excluding, for a *firm* that carries on *general insurance business*, any *non-credit equalisation provision*), except where the amount of those assets does not exceed 7% of the assets in other currencies.

(2) ...

3.1.53A G For the purpose of *INSPRU* 3.1.53R, a *firm* may allocate the total *credit equalisation provisions* to different currencies in proportion to the split by currency of the *technical provisions* for *credit insurance business* established in accordance with *GENPRU* 1.3.4R. Alternatively, another allocation which the *firm* is able to justify as broadly appropriate may be used.

...

3.2.5A G (1) *GENPRU* 2 Annex 7R(3) requires *firms* to consider first whether an asset is a *derivative* or *quasi-derivative* transaction notwithstanding that it is also capable of falling within one or more other categories in *GENPRU* 2 Annex 7R(1). If it is a *derivative* or *quasi-derivative* transaction it is only admissible if it satisfies the conditions for it to be

approved under *INSPRU 3.2.5R*. *Firms* should be able to justify whether or not their assets are *derivatives* or *quasi-derivatives*.

- (2) A *quasi-derivative* is defined as a contract or asset that has the effect of a *derivative* contract. *Quasi-derivatives* may be regarded as those contracts or assets which are not *derivatives* but which effectively contain an embedded *derivative* component which significantly impacts the contract's or asset's cash flow and risk profile so as to mirror the economic effect of a *derivative*. A *derivative* is defined in the *Glossary* as a *contract for differences*, a *future* or an *option* and includes a *securitised derivative*, which is an *option* or *contract for differences* that is listed. A *securitised derivative* may also be a *debenture*.
- (3) A deposit with interest or other return calculated by reference to an index or other factor is excluded from the definition of *contract for differences* by article 85(2) of the *Regulated Activities Order*. However, if the return on the deposit is in the nature of that on a *derivative* (for example, an *option* or a *future*) then the deposit is a *quasi-derivative*.
- (4) A holding in a fund investing in *derivatives* may or may not be a *quasi-derivative* depending on its ongoing investment policy and governance and any investment decisions from time to time which might deviate significantly from the investment policy. It should be treated as a *quasi-derivative* if its risk profile is such that the value of *units* in the fund is expected to mirror the value of a *derivative*.
- (5) The assets in the following list, which is illustrative and not exhaustive, all have features which could lead to their being assumed to be *quasi-derivatives*:
 - (a) a bond whose redemption proceeds are directly linked to the performance of the FTSE 100 index but with a guaranteed minimum;
 - (b) an investment fund that is managed to give high leverage that mirrors a call option;
 - (c) an investment whose value it is reasonably foreseeable could become negative; and
 - (d) a credit-linked note, that is, a security with an embedded credit default swap.

...

- 3.2.36 R (1) For the purposes of *GENPRU 2 Annex 7R* (Admissible assets in insurance), a *stock lending* transaction (including a *repo* transaction) is approved if: ...

...

6.1.34 R For the purposes of *INSPRU* 6.1, an *individual capital resources requirement* is:

...

- (2) in respect of an *EEA insurer* or an *EEA pure reinsurer* (~~other than an *EEA pure reinsurer*~~), the equivalent of the *capital resources requirement* as calculated in accordance with the applicable requirements in its *Home State*;
- (3) ~~in respect of an *EEA pure reinsurer*, the equivalent of the *capital resources requirement* as calculated in accordance with the applicable requirements in its *Home State*~~ in respect of an *EEA ISPV*, the solo capital resources requirement that applies to the *ISPV* under the sectoral rules for the insurance sector of the member State of the competent authority that authorised the *ISPV*;

...

- (10) ... ; and
- (11) ... ; and
- (12) ~~in respect of an *EEA ISPV*, the solo capital resources requirement that applies to the *ISPV* under the *sectoral rules for the insurance sector* of the member State of the *competent authority* that authorised the *ISPV*. [deleted]~~

...

6.1.74 R A's assets in excess of the *market risk* and *counterparty* exposure limits are calculated as follows:

- (1) Subject to (2), a *firm* must apply the *market risk* and *counterparty* exposure limits in *INSPRU* 2.1.22R(3) to:
 - (a) where B is an *insurer* (other than a *pure reinsurer*), the *admissible assets* of B;

...

...

...

6.1.76 R In relation to any of its *regulated related undertakings* that is not an *insurer*, A may modify the calculation in *INSPRU* 6.1.74R by:

- (1) ...

- (2) aggregating all of the assets of B identified in *INSPRU* 6.1.74R(1)(b)(c) as admissible assets with the *admissible assets* of A in *INSPRU* 6.1.74R(4).

...

Schedule 2

Notification and reporting requirements

...

Handbook Reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
...				
<i>INSPRU</i> <u>7.1.68G</u> <u>7.1.83R</u>
<i>INSPRU</i> <u>7.1.74G</u> <u>7.1.89R</u>
...				

Annex D

Amendments to the Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))

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

Chapter 5

PRUDENTIAL REPORTING

...

The FSC1 return

...

Balance sheet

5.6 (1) The balance sheet must consist of Forms 9, ~~9A~~, 13...

...

FSC 2 – FORM 9B

...

I certify that:

(a) (i) ...

(iv) I have had regard to the following ~~Institute of Actuaries and Faculty of Actuaries professional standards and~~ guidance notes adopted or issued by the Board of Actuarial Standards and, in so far as they are relevant to my investigation for the purposes of this certificate, I have complied with them.

(b) ...

FSC 3 – FORM 23B

...

I certify that:

(a) (i) ...

(v) I have had regard to the following ~~Institute of Actuaries and Faculty of Actuaries professional standards and guidance notes~~ adopted or issued by the Board of Actuarial Standards and, in so far as they are relevant to my investigation for the purposes of this certificate, I have complied with them.

(b) ...

Annex E

Amendments to the Interim Prudential sourcebook for Insurers (IPRU(INS))

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

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...

VOLUME TWO

...

Appendix 9.6 Certificates by directors and reports of the auditor ~~and actuary advising the auditor~~ (rules ~~9.5(1A)~~, 9.34 and 9.35)

...

Chapter 1

APPLICATION RULE

Application

Insurers

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

- (a) a *friendly society*¹; or
- (b) ~~subject to rules 3.6 and 3.7 (application of rules to linked long term contracts)~~, an *EEA insurer* or an *EEA pure reinsurer* qualifying for authorisation under Schedules 3 or 4 to the *Act*.

...
¹ A *non-directive friendly society* ...

Chapter 9

FINANCIAL REPORTING

CONTENTS

Part I - Accounts and statements

...

9.7 ~~Right of shareholders and policy holders to receive copies of deposited documents~~

9.8 ~~Documents deposited with the FSA [deleted]~~

9.9 ~~Documents deposited in Northern Ireland [deleted]~~

...

Part VI - Enhanced Capital Adequacy Requirement

...

Chapter 9

FINANCIAL REPORTING

Part I

ACCOUNTS AND STATEMENTS

...

Interpretation

9.2 (1) In rules 9.25 to 9.27, 9.29, 9.30 and 9.32, and in the Appendices relevant to the *Accounts and Statements Rules*, unless the context otherwise requires, words and expressions not defined in *IPRU(INS)* or the *Glossary* which are used in the *insurance accounts rules* have the same meanings as in those rules.

...

Half-yearly balance sheet and report for realistic valuation

9.3A ...

- (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 –

...

- (c) an additional investigation were required under rule 9.4(1)(a) in respect of the six-month period covered by this rule;

...

Periodic actuarial investigation of long-term insurer

9.4 (1) ...

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

...

- (c) for the investigation in (1)(a), for every *long-term insurer* which is a *realistic basis life firm*, a calculation of the *with-profits insurance capital component*.

...

Deposit of accounts etc. with the FSA

9.6 (1) ...

- (1A) If the due date for deposit of documents required by (1) falls on a day which is not a *business day*, the documents must be submitted no later than the first *business day* after the due date.

(1B) [deleted]

...

Content and form of accounts

9.11 ... Where the *rules* in *IPRU(INS)* require a Form to be submitted, but all entries (including comparatives) would be blank, that Form may be omitted provided that a note coded FF00 (where F is the Form number) is included stating that this is why the Form has been omitted. Where a Form is omitted because of the operation of a *de minimis limit*, a note coded FF00 must be included stating that this is why the Form has been omitted. This note is not needed where a Form is omitted because the *rules* do not require it for a reason other than the operation of a *de minimis limit*.

Balance Sheet

- 9.12 ...
(8) For each **Form 13** which an *insurer* is required to complete under (5)(a) or (b), the *insurer* must complete **Form 17** in respect of the same *insurance business*, subject to the de minimis requirement set out in instruction 1 to **Form 17**.

...

FSA general insurance business reporting categories falling below de minimis criteria

- 9.20 ...
(4) An *insurer* may cease to report such business on that Form in that category of business if –
...
(b) the following conditions are met -
...
(iii) the *gross written premiums* in the *financial year in question* and the 'gross undiscounted ~~provision~~ provisions' at the end of that *financial year* for that category of business are each less than 50% of the amounts respectively specified in the 'reporting criteria' for that Form in respect of that category of business.
(5) ...

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 -
...
(d) ~~the extent to which any of the amounts recorded in **Form 13** would be changed if assets which the *insurer* had a right or obligation to acquire or dispose of under 'derivative contracts' outstanding at the end of the *financial year* (being, in the case of *options*, only those *options* which it would have been prudent to assume would be exercised) had been so acquired or disposed of; [deleted]~~
(e) ~~how different the information provided pursuant to (d) would have been if such *options* as were outstanding at the end of the year had been exercised in such a way as to change the amounts referred to in that sub-paragraph to the maximum extent; [deleted]~~

- (f) ~~how different the information provided pursuant to (d) and (e) would have been if, instead of applying to contracts outstanding at the end of the *financial year*, those rules had applied to ‘*derivative contracts*’ outstanding at such other time during the *financial year* as would have changed the amounts referred to in those rules to the maximum extent; [deleted]~~
- (g) ~~the maximum loss which would be incurred by the *insurer* on the failure by any one other person to fulfil its obligations under ‘*derivative contracts*’ outstanding at the end of the *financial year*, both under existing market conditions and in the event of other foreseeable market conditions, together with an assessment of whether such maximum loss would have been materially different at any other time during the *financial year*; [deleted]~~
- (h) the circumstances surrounding the use of any ‘*derivative contract*’ *derivative or quasi-derivative* held at any time during the financial year which required a 'significant' provision to be made for it under *INSPRU* 3.2.17R, or (where appropriate) did not fall within the definition of a *permitted derivative derivatives contract*; and
- (i) the total value of any fixed consideration received by the *insurer* (whether in cash or otherwise) during the *financial year* in return for granting rights under ~~*derivative contracts*~~ *derivatives and quasi-derivatives* and a summary of contracts under which such rights have been granted.

(1A) ...

(2) In this rule, **derivative contract** includes a contract or asset which has the effect of a *derivative contract* and, for the purposes of (1)(h), such a contract or asset must be treated as requiring a significant provision or falling within 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 definition. [deleted]

(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. ~~[deleted]~~
- (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). ~~[deleted]~~
- (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* or a *security admitted to trading*, 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 *admitted to trading*, 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 *INSPRU 3.2.36R*. ~~[deleted]~~
- (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* or a *security admitted to trading*, 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~~

~~(e) the contract is *listed* or has been entered into with an *approved counterparty*. [deleted]~~

(3) For the purposes of this rule, an *insurer* which is a party to—

~~(a) a *contract for differences*; or~~

~~(b) any other contract which is to be, or may be, settled in cash;~~

~~is taken to have a right or obligation to acquire or dispose of the assets underlying the contract. [deleted]~~

...

Additional information on financial reinsurance and financing arrangements: general insurers

9.32A ...

(9) No information need be supplied ... if ... -

...

(b) the *insurer* expects A to remain less than 1% of B for the foreseeable future;

where:

(i) A is the financial effect of on the *insurer's capital resources* as a result of the existence of the contract(s); and

(ii) B is the *insurer's* total gross amount of *technical provisions*.

(10) ...

PART III

STATISTICAL RULES

Insurance statistics: EEA States

...

9.37 ...

- (4) The statements required... If the due date for deposit of documents required by this rule falls on a day which is not a *business day*, the documents must be submitted no later than the first *business day* after the due date.

PART V

GROUP CAPITAL ADEQUACY

...

9.42 ...

- (4) Subject to (4A) and (4B), An an insurer must submit the reports in rule 9.40(1) and in rule 9.40(1A) 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).

The *insurer* must send one printed copy and one electronic copy to the appropriate addresses set out in rule 9.6(2) above. The electronic copy must be sent by email and the title of the email must be:

<firm name> group capital adequacy <dd/mm/yyyy>.

- (4A) Where an *insurer's ultimate EEA insurance parent undertaking* publishes annual consolidated accounts in accordance with accounting standards, policies and legislation applicable to it, the report required by rule 9.40(1A) must be submitted to the *FSA* by no later than the date which is 30 days after publication of those consolidated accounts or the final date of submission required by (4), whichever is the later.
- (4B) If the due date for submission of reports under (4) or (4A) falls on a day which is not a *business day*, the reports must be submitted no later than the first *business day* after that date.

(5) ...

9.42A (1) An *insurer* that ~~report~~ reports under rule 9.40(1) must, subject to rule 9.42B, provide to any person, within 30 days, of the date of request (or, ~~in the case of (c), the date the revised report is provided to the FSA under the rule 9.42(5)~~ the date of submission to the FSA if later):

...

...

9.44 ...

(3) An *insurer* must deposit.....rule 9.6(2) above. If the due date for deposit of documents required by (1) falls on a day which is not a *business day*, the documents must be submitted no later than the first *business day* after the due date.

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
...	
<i>credit default swap</i>	<u>a swap contract in which a buyer makes a series of payments to a seller and, in exchange, receives the right to a payment if a credit instrument issued by a named borrower (the reference entity) goes into default or on the occurrence of a specified credit event, for example bankruptcy or restructuring of the reference entity, during the currency of the contract</u>
<i>initial margin</i>	in respect of a derivative contract or <i>quasi-derivative</i> a contract or asset <u>having the effect of a derivative contract</u> , means assets which, before or at the time the contract is entered into ...
<i>mathematical reserves</i>	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
<i>miscellaneous category</i>	an FSA return <i>general insurance business reporting category</i> to which the <i>category numbers</i> 400 or 700 have been allocated in column 1 of Annex 11.3
<i>swaption</i>	<u>an option granting its owner the right but not the obligation to enter into an underlying swap</u>
<i>total return swap</i>	<u>a financial contract which transfers both the credit risk and market risk of an underlying asset</u>

APPENDIX 9.1 (rules 9.12 and 9.13)

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT
(FORMS 1 TO 3 AND 10 TO 19)**

...

Presentation of amounts

...

7. Firms should not normally restate comparatives unless restatement is necessary in order to allow the appropriate comparison to be made. Where in any Form an amount which is a comparative (i.e. shown in a "previous year" column) or shown brought forward from a previous year differs from the corresponding amount shown in a "this financial year" column in a return for a previous year or as carried forward from that year, as the case may be, 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. (For **Forms 1, 2, 3, 10, 11, 12, 13, 14, 15, 16, 17, 18** and **19** the code for the supplementary note is 0111, 0211, 0311, 1011, 1111, 1211, 1311, 1411, 1511, 1611, ~~1711~~, 1811 and 1911 respectively.)

...

Instructions for completion of Form 1

6. For an insurer other than a pure reinsurer writing both non-life and life business, the guarantee fund requirement at line 21 is calculated by reference to GENPRU 2.2.34R as the higher of line 33 and 1/3 of line 31. For a pure reinsurer writing both non-life and life business, the guarantee fund calculated by reference to GENPRU 2.2.34AR must be allocated between F1.21 and F2.21 in the ratio of the general insurance capital requirement to the sum of the long-term insurance capital requirement and the resilience capital requirement.
- ...
9. The base capital resources requirement at line 33 must be taken from GENPRU 2.1.30R. For a branch, this figure should be halved. For a pure reinsurer writing both non-life and life business, the base capital resources requirement must be allocated between F1.33 and F2.33 in the ratio of the general insurance capital requirement to the sum of the long-term insurance capital requirement and the resilience capital requirement.
- ...
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 ~~INSPRU 8.3.45R~~ 6.1.45R.
- ...
16. The base capital resources requirement at line 33 must be taken from GENPRU 2.1.30R. For a branch this figure should be halved. For a pure reinsurer writing both non-life and life business, the base capital resources requirement must be allocated between F1.33 and F2.33 in the ratio of the general insurance capital requirement to the sum of the long-term insurance capital requirement and the resilience capital requirement.
- ...

Instructions for completion of Form 2

...

5. For an *insurer* other than a *pure reinsurer* writing both non-life and life business, ~~The~~ the guarantee fund requirement at line 21 is calculated by reference to GENPRU 2.2.33R as the higher of line 33 and 1/3 of line 31. For a *pure reinsurer* writing both non-life and life business, the *guarantee fund* calculated by reference to GENPRU 2.2.34AR must be allocated between F1.21 and F2.21 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.

...

9. The *base capital resources requirement* at line 33 must be taken from GENPRU 2.1.30R. For a *branch*, this figure should be halved. For a *pure reinsurer* writing both non-life and life business, the *base capital resources requirement* must be allocated between F1.33 and F2.33 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.

...

- 17B. The *base capital resources requirement* at line 33 must be taken from GENPRU 2.1.30R. For a *branch*, this figure should be halved. For a *pure reinsurer* writing both non-life and life business, the *base capital resources requirement* must be allocated between F1.33 and F2.33 in the ratio of the *general insurance capital requirement* to the sum of the *long-term insurance capital requirement* and the *resilience capital requirement*.

...

Instructions for completion of Form 3

...

19. The entries at lines 45 and 46 for perpetual cumulative *preference shares*, ~~subordinated debt~~ subordinated debt and *securities* must be the total, unrestricted, amounts that the *firm* can include in *upper tier two capital* in accordance with GENPRU 2.2.159R to 2.2.174R, GENPRU 2.2.177R to 2.2.181R and GENPRU 2.2.270R to 2.2.271R.

...

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 GENPRU 2.2.33R, GENPRU 2.2.34R, GENPRU 2.2.34AR and GENPRU 2.2.35R. Unless some *innovative tier one capital* does not meet the conditions for it to be treated as *upper tier two capital* (when an adjustment may be needed), line 81 must be either: ...

...

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 GENPRU 2.2.38R and GENPRU 2.2.39R. Unless some *innovative tier one capital* does not meet the conditions for it to be treated as *upper tier ~~one~~ two capital* (when an adjustment may be needed), line 83 must be either:

...

...

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 GENPRU 2.2.147G, 2.2.176G, 2.2.177R, 2.2.180R, 2.2.181R, 2.2.159R to 2.2.174R, GENPRU 2.2.177R to 2.2.181R and GENPRU 2.2.270R to 2.2.271R.

...

45. The types of capital instrument that a *firm* can include within its *lower tier two capital* are set out at ~~GENPRU 2.2.66G, 2.2.69G, 2.2.159R, 2.2.163R, 2.2.164G~~ GENPRU 2.2.159R to 2.2.174R, GENPRU 2.2.194R to 2.2.196R and GENPRU 2.2.270R to 2.2.271R. These should be split between fixed term *preference shares* and other *tier two instruments* and entered at lines 51 and 52 respectively.

...

Form 17 (apart from the Instructions) is deleted and replaced with the following version. The new text is not underlined.

Form 17

Analysis of derivative contracts

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

		Company registration number	GL/UK/CM	day	month	year	units	Category of assets
R17							£000	
Derivative contracts			Value as at the end of this financial year		Notional amount as at the end of this financial year			
			Assets 1	Liabilities 2	Bought / Long 3	Sold / Short 4		
Futures and contracts for differences	Fixed-interest securities	11						
	Interest rates	12						
	Inflation	13						
	Credit index / basket	14						
	Credit single name	15						
	Equity index	16						
	Equity stock	17						
	Land	18						
	Currencies	19						
	Mortality	20						
	Other	21						
In the money options	Swaptions	31						
	Equity index calls	32						
	Equity stock calls	33						
	Equity index puts	34						
	Equity stock puts	35						
	Other	36						
Out of the money options	Swaptions	41						
	Equity index calls	42						
	Equity stock calls	43						
	Equity index puts	44						
	Equity stock puts	45						
	Other	46						
Total (11 to 46)		51						
Adjustment for variation margin		52						
Total (51 + 52)		53						

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE. Please see instructions 11 and 12 to this Form for the meaning of these figures.

Instructions for completion of Form 17

1. Where the year end total notional amount (line 51.3 + line 51.4) exceeds the lesser of £100m and 5% of assets not held to match linked liabilities (Form 13 line 89.1 – Form 13 line 58.1 – Form 13 line 59.1) for the total *long-term insurance business* assets or the total assets other than *long-term insurance business assets*, Form 17 must be completed in respect of ~~the total *general insurance business assets*~~ and in respect of the total *long-term insurance business assets*, if any, that total category of assets of the *insurer* or branch. Form 17 must also be completed for each fund or group of funds referred to in instruction 1 to Form 13 if Form 17 must be completed in respect of the total *long-term insurance business assets*.
2. The codes specified in instructions 1 to 3 to Form 13 must be used as appropriate.
3. *Derivative contracts* must be analysed according to the description of assets shown in the second column of Form 17 which represents the principal subject of the contract. Credit derivatives include credit default swaps and total return swaps. An option is in the money (and conversely out of the money) if it could be exercised based on market conditions as at the end of the financial year.
4. *Derivative contracts* must be reported as assets in column 1 of Form 17 if their value to the *insurer* (gross of *variation margin*) is positive and as liabilities in column 2 of Form 17 if their value (gross of *variation margin*) to the *insurer* is negative.
5. All amounts included at lines 11 to ~~35~~ 51 columns 1 and 2 of Form 17 in respect of *derivative contracts* must be determined without making any allowance for *variation margin*.
6. Amounts in respect of a *derivative contract* may only be included net of amounts in respect of any other *derivative contract* if –
 - (a) obligations of the *insurer* under the contracts may be set off against each other under generally accepted accounting practice; and
 - (b) such other contract has the effect (in whole or in part) of closing out the obligations of the *insurer* under the first mentioned contract.
7. The effect of any *variation margin* upon amounts included at lines 11 to ~~35~~ 51 of Form 17 and columns 1 and 2 must be shown at line ~~44~~ 52 columns 1 and 2.
8. The entry at 17.~~49~~ 53.1 must be included at 13.44.1.
9. The entry at 17.~~49~~ 53.2 must be included at 14.38.1 or 15.49.1. as appropriate.
10. Rights to recover assets transferred by way of *initial margin* must not be shown on Form 17.
11. In columns 3 and 4, the notional amount is:
 - (a) For interest rate and inflation swaps, the cash amount on which the swap is based.
 - (b) For credit default swaps, the nominal value of the bonds on which the swap is based.
 - (c) For mortality swaps, the market value of the fixed future payments.
 - (d) For swaptions, the nominal amount on which conversion to a fixed interest rate will be applied.
 - (e) For options other than swaptions, the market value of the assets subject to the option.
 - (f) For futures, the market value of the asset that is contracted to be bought / sold.
 - (g) For other contracts for differences, the nominal value of the property, index or other value referenced by the contract.
12. For the purposes of columns 3 and 4, a contract is bought / long (and conversely sold / short) if it is:
 - (a) For currency futures and contracts for differences, a contract where the insurer pays sterling. Currency contracts not involving sterling must be replicated as a contract into sterling and a contract out of sterling. For example, a future to buy a currency other than sterling at a price expressed in another non-sterling currency must be replicated by a long future to buy the first currency with sterling and a short future to sell the second currency for sterling.

- (b) For interest rate and inflation swaps, a contract where the insurer receives a fixed rate in exchange for paying a variable (short term deposit) rate. A swap between a short term deposit rate and inflation must be replicated as a deposit / fixed and a fixed / inflation swap.
- (c) For credit default swaps, a contract where the insurer receives a fixed payment in exchange for taking on credit risk.
- (d) For mortality swaps, a contract where the insurer receives a fixed payment in exchange for taking on mortality risk.
- (e) For options, a contract where the insurer has the option to buy the underlying or has provided the option to a counterparty to sell the underlying.

APPENDIX 9.2 (rules 9.14 to 9.22)

**GENERAL INSURANCE BUSINESS:
REVENUE ACCOUNT AND ADDITIONAL INFORMATION
(FORMS 20A and 20 TO 39)**

...

Instructions for completion of Form 30

...

13. The entry under the column headed 'reporting territory code' must be one of the codes listed in **Appendix 9.2 Paragraph 32**. "WW" must be used for treaty reinsurance. Otherwise the code must be as defined in Appendix 9.2 Paragraph 16(3).

...

APPENDIX 9.3 (rules 9.14 and 9.23)

LONG-TERM INSURANCE BUSINESS REVENUE ACCOUNT AND ADDITIONAL INFORMATION (FORMS 40 TO 60)

...

Instructions for completion of Form 44

...

7. A supplementary note setting out the name of the fund, the net asset value and the liquidity ratio [Code 4405] must be provided for any fund –
- (a) whose net asset value is greater than £10m, and with respect to which there is a negative liquidity ratio (~~i.e., liabilities of the fund less approved securities, short term deposits and cash held in the fund is a negative amount~~) exceeding ~~5% of the net asset value of the fund~~ 0.05 in magnitude; and
 - (b) whose net asset value is greater than £500,000, and with respect to which there is a negative liquidity ratio exceeding ~~50% of the net asset value of the fund~~ 0.5 in magnitude;
where the liquidity ratio is the sum of approved securities, short term deposits and cash held in the fund less the liabilities of the fund expressed as a ratio of the net asset value of the fund.

...

Instructions for completion of Form 48

...

2. *Collective investment schemes* (in line 13.43) and collective investment pools (in line 13.49) must be allocated in column 1 to line 18 or 28. In column 2 they must be allocated according to the underlying assets, but holdings of a type of asset within a collective investment scheme or pool of less than 5% of the assets for that collective investment scheme or pool may be grouped with the main type of underlying asset for that collective investment scheme or pool. An amount of *collective investment scheme* and collective investment pool assets not exceeding 1% of the total non-linked assets may be reallocated from column 1 to column 2 based on the stated investment objective instead of the actual underlying assets at the valuation date. Any gearing will reduce the amounts shown in “other assets” (which may therefore be negative in column 2).
- ...
4. Where there is an obligation to purchase any of the underlying assets or they are ‘in the money’ at the *relevant date*, *derivative contracts* must be allocated in column 2 as if the underlying asset had been purchased on the *relevant date*. Any assumed purchase of assets in respect of ‘in the money’ derivatives will reduce the amounts shown as “other assets” (which may therefore be negative in column 2).
- ...
16. Column 5 must be expressed as a percentage.

...

Form 56 (apart from the Instructions) is deleted and replaced with the following version. The new text is not underlined.

Long-term insurance business: index linked business

Form 56

Name of insurer
 Total business
 Financial year ended
 Units

		Value of assets	Mean term
		1	2
Analysis of assets			
Approved variable interest securities	11		
Other variable interest securities	12		
Approved fixed interest securities	13		
Other fixed interest securities	14		
Cash and deposits	15		
Equity index derivatives	16		
Inflation swaps	17		
Other assets	18		
Variation margin	19		
Total (11 to 19)	20		
Credit rating of other fixed interest and other variable interest securities			
AAA/Aaa	31		
AA/Aa	32		
A/A	33		
BBB/Baa	34		
BB/Ba	35		
B/B	36		
CCC/Caa	37		
Other (including unrated)	38		
Total other fixed interest and other variable interest securities	39		

Instructions for completion of Form 56

1. ~~Assets and liabilities in column 2 must be listed individually except that where a group of assets of similar type is held which is intended to mirror the performance of an index, a description of the type of assets held may be given. Liabilities must be shown between round brackets and must be fully described. Where index-linked assets (13.58.1) exceed £100m they must be analysed in Form 56. The value of assets in line 20 column 1 must correspond to the value of assets in Form 13.58.1.~~
2. ~~Assets and liabilities for each index link and for each combination of assets and liabilities matching the insurer's liability under any deposit back arrangement must be shown separately. Links to different percentages of an index must be treated as different index links. The mean term in column 2 may be calculated by using the expected yearly cashflows discounted by the internal rate of return, or an alternative actuarial method. Undated stocks must be assumed to be redeemed after 40 years.~~
3. ~~For each index link, the sub-total of values in column 2 (excluding those held in respect of any deposit back arrangement) must match the sum of the appropriate entries in column 7 of Form 54 net of reinsurance ceded. These sub-totals are not shown on Form 56. Where the sum of other variable interest securities (line 12) and other fixed interest securities (line 14) exceeds £100m, these must be analysed in lines 31-39. A supplementary note (code 5601) must be provided stating which rating agency has been used to provide the split by credit rating.~~
4. ~~Assets and liabilities arising from derivative contracts (or contracts or assets which have the effect of a derivative contract) must be shown separately. Amounts must be shown net of variation margin in column 2 and gross of variation margin in column 3. Rights to recover assets transferred by way of initial margin must not be shown on Form 56. Amounts in lines 16 and 17 (column 1) must be shown net of any variation margin.~~
5. ~~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 5601). [deleted]~~
6. ~~Any provision for "reasonably foreseeable adverse variations" must be determined in accordance with INSPRU 3.2.17R(3) and shown in a supplementary note (code 5602). [deleted]~~
7. ~~The insurer must include a supplementary note (code 5603) of any circumstances which make the natural relationships break down (e.g., particular tax treatments). [deleted]~~
8. ~~Where unit liabilities are reinsured and deposited back with the ceding insurer, the amounts deposited back which are either unit liabilities in respect of property linked benefits or investment liabilities in respect of index linked benefits must be treated as though they are unit liabilities. [deleted]~~

APPENDIX 9.4 (rule 9.31)

ABSTRACT OF VALUATION REPORT

...

Valuation basis (other than for special reserves)

...

4. ...

- (4) A table of mortality bases used, showing the product group and the bases used at the end of the *financial year in question* and at the end of the previous *financial year*. If a mortality basis cannot be expressed as a flat percentage of a standard table or as a standard table subject to a flat age rating, then the mortality basis should be shown as 'modified <name of table>'. For assurance where the 'modified table' description is used, rates must be provided for ages 25, 35, 45 and 55. For all annuitant mortality bases covered by this paragraph, the complete expectation of life at age 65 and 75 for annuities in payment and the complete expectation of life at age 65 for current ages 45 and 55 for deferred annuities must be provided. ...

...

APPENDIX 9.6 (rules 9.34 and 9.35)

CERTIFICATES BY DIRECTORS AND REPORT OF THE AUDITORS

...