

**INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS
(MINOR CHANGES NO 2) INSTRUMENT 2002**

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 150(2) (Actions for damages);
 - (3) section 156 (General supplementary powers); and
 - (4) section 157(1) (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) of the Act (Rule-making instruments).

Commencement

- C. This instrument comes into force on 31 December 2002.

Amendments to the Interim Prudential sourcebook for insurers

- D. IPRU(INS) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Interim Prudential Sourcebook for Insurers (Minor Changes No 2) Instrument 2002.

By order of the Board
19 December 2002

Annex

Amendments to the Interim Prudential sourcebook for insurers

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

VOLUME ONE

The definition of *readily realisable* in rule 11.1 is amended as follows:

~~in relation to a *listed* investment means a *listed* investment to which rule 4.8(4) either does not apply or applies by reason only that —~~

- ~~(a) — 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~~
- ~~(b) — 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~~

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.

VOLUME THREE

FSA GUIDANCE NOTES

Paragraph B3 of Annex B (Controls over investment managers) of Guidance Note P.1 (Systems and controls over the investments (and counterparty exposure) of insurers with particular reference to the use of derivatives) is amended as follows:

~~In addition, any new corporate manager appointed by the insurer must be notified to the FSA under the approved persons regime. Third party investment managers are likely to be performing a controlled function (see SUP 10.9.12R - the significant management (other business operations) function). If so, the approved persons regime will apply (see SUP 10 (approved persons) and SUP 10.12.4G (in relation to outsourcing, if applicable)) are normally notifiable and will need to pass the appropriate fit and proper tests.~~

Paragraph 3.2 of Guidance Note 4.1 (Guidance for insurers and auditors on the Valuation of Assets Rules) is amended as follows:

Approved/regulated institutions

There are definitions for a number of different types of institution and admissibility limits grade the level of *debt* that can be accumulated with any one institution according to the type of institution. The definitions are normally expressed in terms of criteria and in many cases guidance can be gained by referring to lists published periodically by the FSA (normally on the FSA website) to determine what category applies to a particular institution. The different types of institution in order of credit 'grading' are:

approved financial institutions - are listed in rule 11.1 and are largely European central banks.

approved securities - are limited to government *securities* and deposits with ~~approved financial institutions~~ *approved financial institutions*. Only *securities* backed by governments/public authorities of countries classified as Zone A are included. *Debt securities* issued by certain supra-national authorities are also included. Zone A countries are all countries which are full members of OECD, together with those countries which have concluded special lending arrangements with the International Monetary Fund associated with the General Agreement to Borrow. A current list of these countries can be obtained from the *FSA (Banking Supervision)*. It follows that government *securities* from non Zone A countries are therefore subject to the general *debt* rules.

approved credit institutions - are essentially banks and building societies ~~authorised under~~ 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~~ *Banking Co-ordination Directive* 2000/12/EC. Note that an *approved credit institution* is also an *approved counterparty* and also a *regulated institution*. ~~The *FSA* regularly publishes a list of banks authorised in the UK. This list includes UK branches of non-EEA banks which have been authorised directly by the *FSA* and institutions authorised by other *EEA States* but which have a branch in the UK. It does not, however, include institutions authorised by other *EEA States* which do not operate in the UK but which are nevertheless *approved credit institutions* for the purposes of the *Valuation of Assets Rules*. The European Commission from time to time publishes a full list of all credit institutions authorised under the Directive but in practice this tends to be out of date. It is advisable to contact the competent authority in the *EEA State* concerned for the latest list.~~

approved counterparties - are *approved credit institutions* plus certain investment firms authorised to engage in wholesale market activities or derivatives transactions. ~~A list of *approved credit institutions* can be obtained from the *FSA*.~~ For the purposes of calculating aggregate *exposure* for the admissibility limits, the term *counterparty* has been given its own definition. This is dealt with in more detail within section 5.

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Paragraph 1.6 of Guidance Note 9.1 (Preparation of returns) is amended as follows:

Insurance Fees

The rules in *SUP 20* and *SUP 20 Annex 1R* require *firms* to pay periodic and transaction reporting fees. ~~No later than when depositing the *returns* and other documents referred to above, an *insurer* should separately send a completed insurance fees form to the address shown on the form and, where a fee is due, a cheque in payment. The insurance fees form should be returned even if it only evidences that no fees are payable.~~

Paragraph 7 of Guidance Note 9.1 (Preparation of returns) is amended as follows:

7. **THE RULE 9.30 STATEMENT: ~~SHAREHOLDER~~
CONTROLLERS**

7.1 ...

- (2) Rule 9.30 imposes substantially the same requirements as *SUP 16.4*, ~~and i~~ If a statement under rule 9.30 is has been filed as part of an *insurer's return*, the information provided a separate statement need not be filed again under *SUP 16.4*.