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).

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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) does 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 SYSC. 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 implements 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].
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) …

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

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 a statement of its liquidity management policy (see rule 3.4.3).

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.
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.

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:
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

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.

The Interim Prudential Sourcebook for building societies sets out most of the FSA’s detailed prudential standards and related notification requirements applying (where these apply only to societies authorised under the Act) 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) and Senior Management Arrangements, Systems and Controls (SYSC) and the Integrated Prudential Sourcebook (PRU). Other notification requirements are set out in chapter 15 of the Supervision Manual (SUP).

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, §2.4, 5.2.7, §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) and in PRU 5.1 – stress testing and scenario analysis, and contingency funding plans).

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. 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.

5 Liquidity

5.1 Introduction

5.1.1 G 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). 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 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.
Chapter 1 Application

Chapter 2 Integrity, skill, care and diligence

Chapter 3 Management and control

Chapter 4 Financial prudence

1. Margins of solvency
2. Adequacy of assets
3. Adequacy of premiums [deleted]
4. Currency matching and localisation [deleted]
5. Separation between long-term insurance business assets and other assets
6. Linked long-term contracts
7. Liquidity

Chapter 5 Prudential reporting

Chapter 6 Statistical information relating to EEA branches and services operations [deleted]

Chapter 7 Definitions

Part I Definitions
Part II General Provisions
Part III Classes of long-term insurance business
Classes of general insurance business

Chapter 8 Transitional provisions

List of Annexes

Annex 7 Guidance on the use of derivative contracts by directive friendly societies

Annex 8 Guidance on the balance sheet (Forms 9 to 17) [deleted]
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

4.1 (1) Subject to (3), a friendly society (other than a flat rate benefits business friendly society) must maintain a 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.

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.
The guarantee fund

4.3 A directive friendly society and a non-directive incorporated friendly society must ensure that its required 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.

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

(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.

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.

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

---

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) 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

...

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

...
(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 –

<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Act</td>
<td>means Financial Services and Markets Act 2000;</td>
</tr>
<tr>
<td>appointed actuary</td>
<td>means an actuary appointed under SUP 4.13.1R;</td>
</tr>
<tr>
<td>appropriate actuary</td>
<td>means an actuary appointed under SUP 4.4.1R;</td>
</tr>
<tr>
<td>approved credit institution</td>
<td>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;</td>
</tr>
<tr>
<td>approved financial institution</td>
<td>means any of the following –</td>
</tr>
<tr>
<td></td>
<td>the European Central Bank;</td>
</tr>
<tr>
<td></td>
<td>the central bank of an EEA State;</td>
</tr>
<tr>
<td></td>
<td>the International Bank for Reconstruction and Development;</td>
</tr>
<tr>
<td></td>
<td>the European Bank for Reconstruction and Development;</td>
</tr>
<tr>
<td></td>
<td>the International Finance Corporation;</td>
</tr>
<tr>
<td></td>
<td>the International Monetary Fund;</td>
</tr>
<tr>
<td></td>
<td>the Inter-American Development Bank;</td>
</tr>
<tr>
<td></td>
<td>the African Development Bank;</td>
</tr>
<tr>
<td></td>
<td>the Asian Development Bank;</td>
</tr>
<tr>
<td></td>
<td>the Caribbean Development Bank;</td>
</tr>
<tr>
<td></td>
<td>the European Investment Bank;</td>
</tr>
<tr>
<td></td>
<td>the European Community;</td>
</tr>
<tr>
<td></td>
<td>the European Atomic Energy Community;</td>
</tr>
<tr>
<td></td>
<td>and the European Coal and Steel Community;</td>
</tr>
</tbody>
</table>

**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 first life Directive; and

(f) contracts of a kind referred to in article 1(3) of the first 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


**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;

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;

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) 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

(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:

(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";

(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) for a non-directive incorporated friendly society, means a derivative contract which:

(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,

(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 branches of the friendly society;

**required margin of solvency** has the meaning given in rule 4.1-4.2


**SUP** means the Supervision Manual;


**UK insurer** has the meaning given in **IPRU(INS)**;
Chapter 8

TRANSITIONAL PROVISIONS

Guidance:

...

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Material to which the transitional provision applies</th>
<th>Transitional provision</th>
<th>Transitional Provision: Dates in force</th>
<th>Handbook provision: coming into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><em>IPRU(FSOC)</em> 4.12, 4.20, 4.21, 4.22, 4.23, Appendix 4 paragraph 15</td>
<td>R  For the period given in column 5, a non-directive incorporated friendly society need not comply with a rule listed in column 2</td>
<td>From 31 December 2004 to 30 December 2005</td>
<td>31 December 2004</td>
</tr>
<tr>
<td>2</td>
<td><em>Rules in IPRU(FSOC)</em></td>
<td>G  Further transitional provisions concerning waivers and written concessions are contained in PRU</td>
<td>See PRU</td>
<td>See PRU</td>
</tr>
<tr>
<td>3</td>
<td><em>IPRU(FSOC) Rule 5.1A</em></td>
<td>R  (1) This paragraph and Table 2 below apply to a directive friendly society. (2) <em>IPRU (FSOC)</em> 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.</td>
<td>From 31 December 2004 to 30 December 2007</td>
<td>31 December 2004</td>
</tr>
<tr>
<td>4</td>
<td><em>IPRU(FSOC) rules 4.21, 4.22, 7.1 (Definitions), Appendix 3 paragraphs 9 and</em></td>
<td>R  For the period given in column (5), for the purposes of the</td>
<td>31 December 2004 to 30 December</td>
<td>31 December 2004</td>
</tr>
<tr>
<td>12</td>
<td>*rules specified in column (2), a <em>directive friendly society</em> must apply the definition of <em>permitted derivative contract</em> as it takes effect in relation to a <em>non-directive incorporated friendly society.</em></td>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 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

<table>
<thead>
<tr>
<th>Financial year ending on or after</th>
<th>Deposit period following the financial year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2004</td>
<td>6 months</td>
</tr>
<tr>
<td>31 December 2005</td>
<td>6 months</td>
</tr>
<tr>
<td>31 December 2006</td>
<td>4 months</td>
</tr>
<tr>
<td>31 December 2007</td>
<td>3 months</td>
</tr>
<tr>
<td></td>
<td>Where the deposit is made electronically</td>
</tr>
<tr>
<td></td>
<td>Otherwise</td>
</tr>
<tr>
<td></td>
<td>6 months</td>
</tr>
<tr>
<td></td>
<td>6 months</td>
</tr>
<tr>
<td></td>
<td>3 months and 15 days</td>
</tr>
<tr>
<td></td>
<td>2 months and 15 days</td>
</tr>
</tbody>
</table>
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 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 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 is exposed to a counterparty in excess of the permitted counterparty exposure limit for such counterparty;

(c) the amount by which the friendly 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 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 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*; and

(b) where the *friendly 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* 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* 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* 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.

...
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.

One copy 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).

Three copies 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

<table>
<thead>
<tr>
<th>Name of Society</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period ended 31 December</th>
<th>Reg No</th>
<th>Units £/000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category of assets/Total</th>
<th>As at the end of the year</th>
<th>As at the end of the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Excess of the value of net admissible assets (Note 8)</th>
<th>51</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities and margins</td>
<td>59</td>
</tr>
<tr>
<td>Amount included in line 59 attributable to liabilities to associated bodies, other than those under contracts of insurance or re-insurance</td>
<td>61</td>
</tr>
<tr>
<td>Amount included in line 59 attributable to liabilities in respect of property linked benefits</td>
<td>62</td>
</tr>
<tr>
<td>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)</td>
<td>63</td>
</tr>
</tbody>
</table>
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 paragraphs (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

Reg No

Period ended 31 December

¶ 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) ¶ We have the following additional comments (use extra pages).
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 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 contracts.

...
(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 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) 40%. 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

Guidance: The purpose of the prudential rules for insurers and an overall description [deleted]

Chapter 1 Application rule and restriction of business to insurance

Chapter 2 Margins of solvency [deleted]

Chapter 3 Long-term insurance business

Part I Identification and application of assets and liabilities
Part II Linked long-term contracts

Chapter 4 Valuation of assets [deleted]

Chapter 5 Determination of liabilities [deleted]

Chapter 6 General insurance business: equalisation reserves [deleted]

Chapter 7 Currency matching and localisation [deleted]
Chapter 8  Non-UK insurers

Part I  Deposits—[deleted]
Part II  Location of accounts and records—[deleted]
Part III  Rules applicable to branches

Chapter 9  Financial reporting

Part I  Accounts and statements
Part II  Accounts and statements for a marine mutual
Part III  Statistical rules
Part IV  Material connected-party transactions
Part V  Group Capital Adequacy

Chapter 10  Parent undertaking solvency calculation—[deleted]

Chapter 11  Definitions

Part I  Definitions
Part II  General Provisions

Annex 11.1  Classes of long-term insurance business
Annex 11.2  Classes, and groups of classes, of general insurance business

Chapter 12  Transitional arrangements

VOLUME TWO

Appendices to the Rules

Appendix 2.1  General insurance business solvency margin: first method of calculation (premium basis) (rule 2.4(1)(b))—[deleted]

Appendix 2.2  General insurance business solvency margin: second method of calculation (claims basis) (rule 2.4(1)(b))—[deleted]

Appendix 2.3  Minimum guarantee fund (rule 2.9)—[deleted]

Appendix 3.1  [deleted]

Appendix 3.2  Permitted links (rule 3.7)

Appendix 4.1  [deleted]

Appendix 4.2  Assets to be taken into account only to a specified extent (rule 4.14)—[deleted]

Appendix 5.1  Relevant co-insurance operations (rule 5.5 and relevant co-insurance
Appendix 6.1 Methods of calculating the equalisation reserve (rule 6.7) [deleted]

Appendix 6.2 Method of calculating the equalisation reserve for credit insurance business (rule 6.12) [deleted]

Appendix 9.1 Balance sheet and profit and loss account (Forms 9-17) (rules 9.12 and 9.13)

Appendix 9.2 General insurance business: revenue account and additional information (Forms 20 to 39) (rules 9.14 to 9.22)

Appendix 9.3 Long-term insurance business: revenue account and additional information (Forms 40 to 45) (rules 9.14 and 9.23)

Appendix 9.4 Abstract of valuation report prepared by appointed actuary (Forms 46 to 61) (rule 9.31)

Appendix 9.4A Abstract of valuation report for realistic valuation (rule 9.31)

Appendix 9.5 General insurance business: additional information on business ceded (rule 9.32)

Appendix 9.6 Certificates by directors and actuary and report of auditors (rules 9.34 and 9.35)

Appendix 9.7 Insurance statistics: other EEA States (Forms 91 to 94) (rule 9.37)

Appendix 9.8 Marine mutuals: items to be disregarded, directors’ certificates and auditors reports (rule 9.36A)

Appendix 9.9 Group Capital Adequacy (rules 9.40 to 9.42 and guidance 9.43)

VOLUME THREE

FSA GUIDANCE NOTES

Guidance Note P.1  Systems and controls over the investments (and counterparty exposure) with particular reference to the use of derivatives (Principles for business) [deleted]

Guidance Note P.2  Systems and controls over general business claims provisions (Principles for business) [deleted]

Guidance Note P.3  Systems and controls in insurers [deleted]

Guidance Note 2.1 Hybrid capital: admissibility for solvency (rule 6.1 and required
Chapter 1

APPLICATION RULE AND RESTRICTION OF BUSINESS TO INSURANCE

CONTENTS
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.

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

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

3.2 Application of assets of insurer with long-term insurance business
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
liabilities connected with the long-term insurance business.

... 

Allocations to policy holders

Allocation of established surplus

3.3 (1) ... 

an insurer must not by virtue of rule 3.2(2) PRU 7.6.27R 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) PRU 7.6.30R 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 [deleted]

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. [deleted]

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

8.1 Making and amount of deposit [deleted]

Part II - Location of accounts and records

8.2 Location of accounts and records [deleted]
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
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.


**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), 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.

<table>
<thead>
<tr>
<th>financial year ending on or after</th>
<th>deposit period following the financial year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2001</td>
<td>where the deposit is made electronically or under rule 9.36A</td>
</tr>
<tr>
<td>3 months</td>
<td>otherwise</td>
</tr>
<tr>
<td>31 December 2002 and following years</td>
<td>3 months</td>
</tr>
<tr>
<td>2 months and 15 days</td>
<td></td>
</tr>
</tbody>
</table>

(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
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 to 15 and 17 to 19 of that Appendix completed (as may be appropriate) as specified in (2) to (8)

(2) Form 9 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 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 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.

…

(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 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;

(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.

Certificates 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 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 1, 3, 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 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 (note 2007) or Form 40 (note 4009).

...

PART V

GROUP CAPITAL ADEQUACY

9.40 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:
(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.

Subject to (2), an insurer must, 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)
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.

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).

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.
<table>
<thead>
<tr>
<th>Term or phrase</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980 Regulations</td>
<td>Insurance Companies (Accounts and Statements) Regulations (S.I. 1980 No. 6)</td>
</tr>
<tr>
<td>accumulating with-profits policy</td>
<td>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</td>
</tr>
<tr>
<td>Act</td>
<td>Financial Services and Markets Act 2000</td>
</tr>
<tr>
<td>admissible asset</td>
<td>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) that falls into one or more categories in PRU 2 Annex 1R</td>
</tr>
<tr>
<td>Amortised value</td>
<td>the amortised value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to insurers</td>
</tr>
<tr>
<td>ancillary risk</td>
<td>(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—</td>
</tr>
<tr>
<td></td>
<td>———— connected with the principal risk,</td>
</tr>
<tr>
<td></td>
<td>———— concerned with the object which is covered against the principal risk, and</td>
</tr>
<tr>
<td></td>
<td>———— the subject of the same contract insuring the principal risk;</td>
</tr>
<tr>
<td></td>
<td>(b) but, the risks included in classes 14, 15 and 17</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>annuities on human life</th>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>appointed actuary</td>
<td>the person appointed as actuary to an insurer under the rules in SUP</td>
</tr>
</tbody>
</table>
| approved counterparty | 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 |

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*For guidance, see paragraph 3 of Guidance Note 4.1*
<table>
<thead>
<tr>
<th>approved financial institution</th>
<th>any of the following—</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• the European Central Bank;</td>
</tr>
<tr>
<td></td>
<td>• the central bank of an EEA State;</td>
</tr>
<tr>
<td></td>
<td>• the International Bank for Reconstruction and Development;</td>
</tr>
<tr>
<td></td>
<td>• the European Bank for Reconstruction and Development;</td>
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<tr>
<td></td>
<td>• the International Finance Corporation;</td>
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<td></td>
<td>• the International Monetary Fund;</td>
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<td></td>
<td>• the Inter-American Development Bank;</td>
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<td>• the African Development Bank;</td>
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<tr>
<td></td>
<td>• the Asian Development Bank;</td>
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<td></td>
<td>• the Caribbean Development Bank;</td>
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<td></td>
<td>• the European Investment Bank;</td>
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<td>• the European Community;</td>
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<tr>
<td></td>
<td>• the European Atomic Energy Community;</td>
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<tr>
<td></td>
<td>• the European Coal and Steel Community.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>approved index</th>
<th>(a) an index which is -</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(i) calculated independently,</td>
</tr>
<tr>
<td></td>
<td>(ii) published at least once every week,</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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;</td>
</tr>
<tr>
<td></td>
<td>(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 Consolidation Directive; or</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>approved securities</td>
<td>any of the following -</td>
</tr>
<tr>
<td></td>
<td>(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;</td>
</tr>
<tr>
<td></td>
<td>(b) any loan to, or deposit with, an approved financial institution; and</td>
</tr>
<tr>
<td></td>
<td>(c) debentures issued prior to 31 December 1994 by the Agricultural Mortgage Corporation Ltd or the Scottish Agricultural Securities Corporation Ltd</td>
</tr>
<tr>
<td>assessable mutual</td>
<td>a mutual association—</td>
</tr>
<tr>
<td></td>
<td>(a) where the insurance business carried on by the association is limited to the provision of insurance to its members; and</td>
</tr>
<tr>
<td></td>
<td>(b) whose articles of association, rules or bye laws provide for the calling of additional contributions from members to meet claims</td>
</tr>
<tr>
<td>Asset Identification Rules</td>
<td>the rules in Part I of Chapter 3</td>
</tr>
<tr>
<td>authorised person</td>
<td>a person who is authorised for the purposes of the Act</td>
</tr>
<tr>
<td>AUTH</td>
<td>the Authorisation manual</td>
</tr>
<tr>
<td><strong>available assets</strong></td>
<td>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</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>body corporate</strong></td>
<td>includes a body corporate constituted under the law of a country or territory outside the United Kingdom</td>
</tr>
<tr>
<td><strong>building society</strong></td>
<td>a building society within the meaning of the Building Societies Act 1986</td>
</tr>
</tbody>
</table>
| **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*. 

---

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<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>contractually-based</td>
<td>(a) right under a qualifying contract of insurance;</td>
</tr>
<tr>
<td>investment</td>
<td>(b) any investment of the kind specified by any of articles 83, 84, 85 of</td>
</tr>
<tr>
<td></td>
<td>the Regulated Activities Order; or</td>
</tr>
<tr>
<td></td>
<td>(c) any investment of the kind specified by article 89 of the Regulated</td>
</tr>
<tr>
<td></td>
<td>Activities Order so far as relevant to an investment falling within (a) or</td>
</tr>
<tr>
<td></td>
<td>(b)</td>
</tr>
<tr>
<td>credit insurance business</td>
<td>Insurance business falling within general insurance business class 14 that</td>
</tr>
<tr>
<td></td>
<td>is not reinsurance</td>
</tr>
<tr>
<td>Currency Matching and</td>
<td>the rules in Chapter 7</td>
</tr>
<tr>
<td>Localisation Rules</td>
<td></td>
</tr>
<tr>
<td>dealings with or by a</td>
<td>see counterparty</td>
</tr>
<tr>
<td>counterparty</td>
<td></td>
</tr>
<tr>
<td>debt security</td>
<td>includes bonds, notes, debentures and debenture stock</td>
</tr>
<tr>
<td>deferred acquisition costs</td>
<td>those items shown at GII under the heading ‘Assets’ set out in paragraph 9</td>
</tr>
<tr>
<td></td>
<td>of Schedule 9A to the Companies Act</td>
</tr>
<tr>
<td>dependant</td>
<td>a subsidiary undertaking the value of whose shares is taken to be the</td>
</tr>
<tr>
<td></td>
<td>value of its surplus assets under rule 4.2(1) or (1A)(a)</td>
</tr>
<tr>
<td></td>
<td>a dependant is:</td>
</tr>
<tr>
<td></td>
<td>(a) for a firm that is not a participating insurance undertaking (and so</td>
</tr>
<tr>
<td></td>
<td>is not subject to PRU 8.3.9R), any subsidiary undertaking that is valued</td>
</tr>
<tr>
<td></td>
<td>in accordance with PRU 1.3.35R; or</td>
</tr>
<tr>
<td></td>
<td>(b) for a firm that is a participating insurance undertaking (and so is</td>
</tr>
<tr>
<td></td>
<td>subject to PRU 8.3.9R as referred to in PRU 2.1.9R(2)), any subsidiary</td>
</tr>
<tr>
<td></td>
<td>undertaking that is either (1) a regulated related undertaking in respect</td>
</tr>
<tr>
<td></td>
<td>of which no election has been made in accordance with PRU TR 25R, or (2)</td>
</tr>
<tr>
<td></td>
<td>a subsidiary undertaking of the firm, not referred to in (1), that is</td>
</tr>
<tr>
<td></td>
<td>valued in accordance with PRU 1.3.35R.</td>
</tr>
<tr>
<td>deposit, and</td>
<td>the deposit mentioned in rule 8.1, and</td>
</tr>
<tr>
<td><strong>depositor</strong></td>
<td>depositor means an insurer making (or intending to make) such a deposit</td>
</tr>
<tr>
<td><strong>deposit back arrangement</strong></td>
<td>in relation to any contract of reinsurance, means an arrangement whereby an amount is deposited by the reinsurer with the cedant</td>
</tr>
<tr>
<td><strong>designated state or territory</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>derivative contract</strong></td>
<td>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</td>
</tr>
<tr>
<td></td>
<td>has the meaning given to derivative in the Glossary</td>
</tr>
<tr>
<td><strong>Determination of Liabilities Rules</strong></td>
<td>the rules in Chapter 5</td>
</tr>
<tr>
<td><strong>Directive</strong></td>
<td>see—</td>
</tr>
<tr>
<td></td>
<td>Investment Services Directive</td>
</tr>
<tr>
<td></td>
<td>First Life Directive</td>
</tr>
<tr>
<td></td>
<td>First Non-Life Directive</td>
</tr>
<tr>
<td></td>
<td>Banking Co-ordination Directive</td>
</tr>
<tr>
<td></td>
<td>Third Life Directive</td>
</tr>
<tr>
<td></td>
<td>Third Non-Life Directive</td>
</tr>
<tr>
<td></td>
<td>Life Assurance Directive</td>
</tr>
<tr>
<td><strong>director</strong></td>
<td>in relation to a body corporate, includes—</td>
</tr>
<tr>
<td></td>
<td>(a) person occupying in relation to it the position of a director (by whatever name called); and</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td><strong>EEA deposit insurer</strong></td>
<td>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)</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td><strong>Definition</strong></td>
</tr>
<tr>
<td>----------</td>
<td>----------------</td>
</tr>
<tr>
<td>EEA insurer</td>
<td>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</td>
</tr>
<tr>
<td>EEA insurance parent undertaking</td>
<td>an insurance parent undertaking that has its head office in the United Kingdom or another EEA State</td>
</tr>
<tr>
<td>EEA margin of solvency</td>
<td>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)</td>
</tr>
<tr>
<td>EEA State</td>
<td>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</td>
</tr>
<tr>
<td>equalisation reserve</td>
<td>a reserve to be maintained under the Equalisation Reserves Rules</td>
</tr>
<tr>
<td>Equalisation Reserves Rules</td>
<td>the rules in Chapter 6</td>
</tr>
<tr>
<td>equity share capital</td>
<td>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</td>
</tr>
<tr>
<td>excess concentration with a number of counterparties</td>
<td>is determined in accordance with paragraph 17 of Appendix 4.2</td>
</tr>
</tbody>
</table>
| 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 determined 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 Kingdom |

---

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 UK- or EEA-deposit insurer.

| financial year | 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) |


| 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)
<p>| <strong>general insurance business assets, and</strong> | respectively assets and liabilities of an insurer which are not long-term insurance business assets or long-term insurance business liabilities |
| <strong>general insurance business liabilities</strong> | |
| <strong>general insurance contract</strong> | any contract of insurance falling within Part I of Annex 11.2 |
| <strong>general insurer</strong> | an insurer whose business includes effecting or carrying out general insurance contracts |
| <strong>general policy</strong> | a policy evidencing a contract the effecting or carrying out of which constitutes the carrying on of general insurance business |
| <strong>general premium income</strong> | 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 |
| <strong>gross premiums</strong> | 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 |
| <strong>gross premiums earned</strong> | 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. |
| <strong>gross premiums written</strong> | 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). |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>group undertaking</td>
<td>any of:</td>
</tr>
<tr>
<td></td>
<td>(a) the insurer;</td>
</tr>
<tr>
<td></td>
<td>(b) its related undertakings;</td>
</tr>
<tr>
<td></td>
<td>(c) its participating undertakings;</td>
</tr>
<tr>
<td></td>
<td>(d) the related undertakings of its participating undertakings</td>
</tr>
<tr>
<td>guarantee fund</td>
<td>has the meaning given in rule 2.9</td>
</tr>
<tr>
<td>holding company</td>
<td>is construed in accordance with section 736 of the Companies Act or Article 4 of the 1986 Order</td>
</tr>
<tr>
<td>hybrid linked contract</td>
<td>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</td>
</tr>
<tr>
<td>implicit item</td>
<td>has the meaning given in rule 2.10(5)</td>
</tr>
<tr>
<td>incorporated friendly society</td>
<td>a society incorporated under the Friendly Societies Act 1992</td>
</tr>
<tr>
<td>index-linked benefits</td>
<td>benefits—</td>
</tr>
<tr>
<td></td>
<td>(a) provided for under a linked long-term contract;</td>
</tr>
<tr>
<td></td>
<td>and</td>
</tr>
<tr>
<td></td>
<td>(b) determined by reference to an index of the value of property of any description (whether specified in the contract or not)</td>
</tr>
<tr>
<td>index linked contract</td>
<td>a linked long-term contract of insurance conferring index-linked benefits</td>
</tr>
<tr>
<td>index linked liabilities</td>
<td>insurance liabilities in respect of index-linked benefits</td>
</tr>
<tr>
<td><strong>industrial and provident society</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>insurance accounts rules</strong></td>
<td>Schedule 9A to the Companies Act and Schedule 9A to the 1986 Order for the preparation of accounts by insurance undertakings</td>
</tr>
<tr>
<td><strong>insurance business</strong></td>
<td>the business of effecting or carrying out contracts of insurance as principal</td>
</tr>
</tbody>
</table>
| **insurance group** | an insurance parent undertaking and its related undertakings that are—  
  (a) insurance undertakings; or  
  (b) insurance holding companies |
| **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 PRU 1.3 (Valuation) 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 |
| **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 |
<p>| <strong>linked long-term contract</strong> | a contract of the kind described in rule 2.3(4), and linked contract and non-linked contract are construed accordingly |
| <strong>LLD</strong> | the Lloyd’s Sourcebook |
| <strong>localisation</strong> | existence of assets, whether moveable or immoveable, in a State |
| <strong>long-term insurance business</strong> | the business of effecting or carrying out long-term insurance contracts |</p>
<table>
<thead>
<tr>
<th>long-term insurance business amount</th>
<th>is the higher of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) the total of</td>
</tr>
<tr>
<td></td>
<td>(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;</td>
</tr>
<tr>
<td></td>
<td>(A) excluding property linked liabilities, and</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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:</td>
</tr>
</tbody>
</table>


(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)

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>long-term insurance business assets, and</td>
<td>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</td>
</tr>
<tr>
<td>long-term insurance business liabilities</td>
<td></td>
</tr>
<tr>
<td>long-term insurance contract</td>
<td>any contract of insurance falling within Annex 11.1</td>
</tr>
<tr>
<td>long-term insurance fund</td>
<td>a fund maintained under rule 3.1</td>
</tr>
<tr>
<td>long-term insurer</td>
<td>an insurer whose business includes effecting or carrying out long-term insurance contracts</td>
</tr>
<tr>
<td>majority shareholder controller</td>
<td>a shareholder controller whose shareholding is such that the insurer is his subsidiary undertaking</td>
</tr>
<tr>
<td>margin of solvency</td>
<td>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</td>
</tr>
<tr>
<td>Margins of Solvency Rules</td>
<td>the rules in Chapter 2</td>
</tr>
<tr>
<td>market value</td>
<td>in Appendix 3.2 the market value as determined in accordance with generally accepted accounting concepts, bases and policies or other generally accepted methods appropriate to insurers</td>
</tr>
<tr>
<td>material connected-party transaction</td>
<td>a connected-party transaction for which (together with any similar transactions):</td>
</tr>
<tr>
<td></td>
<td>(a) the price actually paid or received for the transfer of assets or liabilities or the performance of services; or</td>
</tr>
<tr>
<td></td>
<td>(b) the price which would have been paid or received had that transaction been negotiated at arm’s length between unconnected parties,</td>
</tr>
</tbody>
</table>
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 insurance business 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

<table>
<thead>
<tr>
<th><strong>maximum reserve</strong></th>
<th>For the purposes of the Equalisation Reserve Rules, the aggregate value of the business group maxima calculated in accordance with Part III of Appendix 6.1.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>the minimum</strong></td>
<td>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)</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>minimum guarantee fund</td>
<td>has the meaning given in rule 2.9</td>
</tr>
<tr>
<td>mutual</td>
<td>An insurer which—</td>
</tr>
<tr>
<td></td>
<td>(a) if it is a <strong>body corporate</strong> has no share capital; or</td>
</tr>
<tr>
<td></td>
<td>(b) a <strong>registered society</strong></td>
</tr>
<tr>
<td>net claims incurred</td>
<td>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</td>
</tr>
<tr>
<td>net claims paid</td>
<td>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</td>
</tr>
<tr>
<td>net operating expenses</td>
<td>the net amount paid in a financial year in respect of commissions, other acquisition expenses, administrative expenses, reinsurance commissions and profit participations</td>
</tr>
<tr>
<td>net premiums earned, and</td>
<td>respectively, gross premiums earned, net of reinsurance premiums earned and gross premiums written, net of reinsurance premiums payable under reinsurance ceded</td>
</tr>
<tr>
<td>net premiums written</td>
<td></td>
</tr>
<tr>
<td>non-directive insurer</td>
<td>(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;</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th>non-EEA insurer</th>
<th>An insurer, other than a pure reinsurer, whose head office is not in an EEA State</th>
</tr>
</thead>
<tbody>
<tr>
<td>non-linked contract</td>
<td>see linked long-term contract</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>notional group solvency margin</th>
<th>in relation to an ultimate insurance parent undertaking or an ultimate EEA insurance parent undertaking, the sum of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) the notional required minimum margin (if any) of that parent; and</td>
</tr>
<tr>
<td></td>
<td>(b) the sum of that parent's proportional shares of the notional required minimum margins of its related insurance undertakings</td>
</tr>
</tbody>
</table>
| **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) |
<p>| <strong>nuclear installation</strong> | any installation prescribed by the Nuclear Installations Regulations 1971 |
| <strong>nuclear matter, and nuclear reactor</strong> | have the same meanings as in the Nuclear Installations Act 1965 |
| <strong>nuclear risks</strong> | 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 |</p>
<table>
<thead>
<tr>
<th><strong>option</strong></th>
<th>an option to acquire or dispose of—</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>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;</td>
</tr>
<tr>
<td>(b)</td>
<td>a contractually based investment;</td>
</tr>
<tr>
<td>(c)</td>
<td>currency of the United Kingdom or of any other country or territory;</td>
</tr>
<tr>
<td>(d)</td>
<td>palladium, platinum, gold or silver; or</td>
</tr>
<tr>
<td>(e)</td>
<td>an investment falling within this definition by virtue of (a), (b), (c) or (d), or a warrant</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>parent undertaking</strong></th>
<th>is construed in accordance with section 258 of the Companies Act and article 266 of the 1986 Order</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>parent undertaking solvency calculation</strong></th>
<th>the calculation required under rule 10.2(3)(a)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>participating undertaking</strong></th>
<th>an undertaking which holds a participation in the undertaking in question</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>participation</strong></th>
<th>(a) the holding of a participating interest within the meaning of section 421(2) of the Act; or</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(b) the holding, directly or indirectly, of 20% or more of the voting rights or capital</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Part II business, and Part III business</strong></th>
<th>the insurance business to which Part II and Part III, respectively, of the Equalisation Reserves Rules applies</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>Part II insurer, and Part III insurer</strong></th>
<th>an insurer to which Part II and Part III, respectively, of the Equalisation Reserves Rules applies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term</strong></td>
<td><strong>Definition</strong></td>
</tr>
<tr>
<td>----------</td>
<td>----------------</td>
</tr>
<tr>
<td>pension fund management contract</td>
<td>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)</td>
</tr>
<tr>
<td>period of risk</td>
<td>the period for which a contract of insurance provides cover</td>
</tr>
<tr>
<td>permanent health contract</td>
<td>a contract falling within class IV of long-term insurance contracts</td>
</tr>
<tr>
<td>permitted asset exposure limit</td>
<td>has the meaning given in paragraph 2 of Appendix 4.2</td>
</tr>
<tr>
<td>permitted connected property</td>
<td>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)</td>
</tr>
<tr>
<td>permitted counterparty exposure limit</td>
<td>has the meaning set out in paragraph 3 of Appendix 4.2</td>
</tr>
<tr>
<td>permitted derivative contract</td>
<td>for the purpose of Appendix 3.2, a derivative contract or quasi-derivative</td>
</tr>
<tr>
<td>(a)</td>
<td>which is 'covered' and</td>
</tr>
<tr>
<td>(i)</td>
<td>which is held in connection with 'property' for the purposes of reduction of investment risk or efficient portfolio management, or</td>
</tr>
<tr>
<td>(ii)</td>
<td>which has the effect of a permitted derivative contract held in connection with 'property' for such purposes; and</td>
</tr>
<tr>
<td>(b)</td>
<td>which satisfies the conditions in rules 4.12(6) to (8) except that the references in rule 4.12 to 'an</td>
</tr>
</tbody>
</table>
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".

<table>
<thead>
<tr>
<th>permitted securities</th>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>policy</td>
<td>(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;</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td>Policy holder</td>
<td>the person who for the time being is the legal holder of the policy for securing the contract with the insurer, and</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td>proper valuation</td>
<td>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</td>
</tr>
<tr>
<td>property linked benefits</td>
<td>benefits other than index linked benefits provided for under a linked long-term contract of insurance.</td>
</tr>
<tr>
<td><strong>property linked contract</strong></td>
<td><strong>a linked long-term contract of insurance</strong> conferring property linked benefits.</td>
</tr>
<tr>
<td>----------------------------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>proportional share</strong></td>
<td><strong>in relation to a related undertaking, the percentage which is the percentage holding (directly or indirectly) in the related undertaking’s capital</strong></td>
</tr>
<tr>
<td><strong>pure reinsurer</strong></td>
<td><strong>an insurer whose insurance business is as a matter of fact restricted to effecting or carrying out contracts of reinsurance</strong></td>
</tr>
<tr>
<td><strong>qualified valuer</strong></td>
<td><strong>in relation to any particular type of land in any particular area, means—</strong></td>
</tr>
<tr>
<td></td>
<td>(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—</td>
</tr>
<tr>
<td></td>
<td>(i) has knowledge of and experience in the valuation of that particular type of land in that particular area, or</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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)</td>
</tr>
<tr>
<td><strong>qualifying contract of insurance</strong></td>
<td><strong>means a long-term insurance contract which is not</strong></td>
</tr>
<tr>
<td></td>
<td>(a) a reinsurance contract; or</td>
</tr>
<tr>
<td></td>
<td>(b) a contract in respect of which the following</td>
</tr>
</tbody>
</table>
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
| **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.

<p>| 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 |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>accordance with the Swiss Treaty Agreement of 10 October 1989</td>
<td></td>
</tr>
<tr>
<td><strong>total capital resources</strong></td>
<td>the sum calculated at stage O of the calculation in PRU 2.2.14R</td>
</tr>
<tr>
<td><strong>ultimate EEA insurance parent undertaking</strong></td>
<td>an EEA insurance parent undertaking that is not itself the subsidiary undertaking of another EEA insurance parent undertaking</td>
</tr>
<tr>
<td><strong>ultimate insurance parent undertaking</strong></td>
<td>an insurance parent undertaking that is not itself the subsidiary undertaking of another insurance parent undertaking</td>
</tr>
<tr>
<td><strong>UCITS</strong></td>
<td>is an undertaking for collective investments in transferable securities</td>
</tr>
<tr>
<td><strong>UK deposit insurer</strong></td>
<td>a non-EEA insurer which has made a deposit in the United Kingdom in accordance with rule 8.1</td>
</tr>
<tr>
<td><strong>UK insurer</strong></td>
<td>an insurer, other than a pure reinsurer or a non-directive insurer, whose head office is in the United Kingdom</td>
</tr>
<tr>
<td><strong>UK margin of solvency</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>Unsecured debt</strong></td>
<td>see secured debt</td>
</tr>
<tr>
<td><strong>used notional group solvency margin</strong></td>
<td>in relation to an ultimate insurance parent undertaking or an ultimate EEA insurance parent undertaking, the sum of:</td>
</tr>
<tr>
<td></td>
<td>(a) in the case of a parent which is itself an insurance parent</td>
</tr>
</tbody>
</table>
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 preference 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.

<table>
<thead>
<tr>
<th>Valuation of Assets Rules</th>
<th>the rules in Chapter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warrant</td>
<td>an instrument which falls within article 79 of the Regulated Activities Order</td>
</tr>
</tbody>
</table>
**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 or phrase which is printed in italics is used in the defined sense. 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*.

…

**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>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material to which the transitional provision applies</td>
<td>Transitional provision</td>
<td>Transitional Provision: Dates in force</td>
<td>Handbook provision: coming into force</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td><em>IPRU (INS) rules 3.7 and 11.1 (Definitions), Appendix 3.2 paragraph 9</em></td>
<td>R</td>
<td>For the period specified in column (5), for the purposes of the <em>rules</em> specified in column (2), an <em>insurer</em> must apply the definition of <em>permitted derivative contract</em> as it had effect immediately prior to the date specified in column (6)</td>
<td>From 31 December 2004 to 30 December 2005</td>
<td>31 December 2004</td>
</tr>
<tr>
<td>2</td>
<td><em>IPRU(INS) rules 3.7 and 11.1 (Definitions), Appendix 3.2 paragraph 9</em></td>
<td>R</td>
<td>(1) This paragraph applies to a contract concluded on or before 30 December 2005 which satisfies the definition of <em>permitted derivative contract</em> 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</td>
<td>From 31 December 2004 until the relevant <em>rule</em> is revoked</td>
<td>31 December 2004</td>
</tr>
<tr>
<td>3</td>
<td><em>IPRU(INS)</em> 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</td>
<td>R</td>
<td>In relation to its financial year ending on or before 30 December 2005, an insurer is not required to complete column 2 (&quot;As at end of the previous year&quot;) of Forms 1, 2, 3, 18 and 19</td>
<td>From 31 December 2004 to 30 December 2005</td>
<td>31 December 2004</td>
</tr>
<tr>
<td>4</td>
<td><em>IPRU(INS)</em>, Volume 1, Ch. 9 Part I, rules 9.5 and 9.35</td>
<td>R</td>
<td>In respect of the report annexed pursuant to <em>IPRU(INS)</em> 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 <em>IPRU(INS)</em> Volume 1, Ch.9 rules 9.5 and 9.35 is limited to audit of: (a) Forms 48, 49, 56, 58 and 60; and</td>
<td>From 31 December 2004 to 30 December 2005</td>
<td>31 December 2004</td>
</tr>
</tbody>
</table>
| **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** |
(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 |

<p>| 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 December 2004 | 31 December 2004 |</p>
<table>
<thead>
<tr>
<th></th>
<th><strong>IPRU (INS) Chapter 9, 9.40 to 9.43 and Appendix 9.9</strong></th>
<th><strong>R</strong></th>
<th><strong>insurer must comply with <strong>IPRU(INS)</strong> 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.</strong></th>
<th><strong>April 2005</strong></th>
<th><strong>2004</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td><strong>IPRU (INS) Chapter 9, 9.40 to 9.43 and Appendix 9.9</strong></td>
<td><strong>R</strong></td>
<td><strong>In relation to an insurer's financial year ending on or before 30 December 2004, the insurer must comply with <strong>IPRU(INS)</strong> 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.</strong></td>
<td><strong>From 31 December 2004 to 30 June 2005</strong></td>
<td><strong>31 December 2004</strong></td>
</tr>
</tbody>
</table>
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

VOLUME TWO

CONTENTS

Appendices to the Rules

Appendix 2.1 General insurance business solvency margin: first method of calculation (premium basis) (rule 2.4(1)(b)) [deleted]

Appendix 2.2 General insurance business solvency margin: second method of calculation (claims basis) (rule 2.4(1)(b)) [deleted]

Appendix 2.3 Minimum guarantee fund (rule 2.9) [deleted]

Appendix 3.1 [deleted]

Appendix 3.2 Permitted links (rule 3.7)

Appendix 4.1 [deleted]

Appendix 4.2 Assets to be taken into account only to a specified extent (rule 4.14) [deleted]

Appendix 5.1 Relevant co-insurance operations (rule 5.5 and relevant co-insurance operation) [deleted]

Appendix 6.1 Methods of calculating the equalisation reserve (rule 6.7) [deleted]

Appendix 6.2 Method of calculating the equalisation reserve for credit insurance business (rule 6.12) [deleted]

Appendix 9.1 Balance sheet and profit and loss account (Forms 9-17) (rules 9.12 and 9.13)

Appendix 9.2 General insurance business: revenue account and additional information (Forms 20 to 39) (rules 9.14 to 9.22)

Appendix 9.3 Long-term insurance business: revenue account and additional information (Forms 40 to 45) (rules 9.14 and 9.23)
Appendix 9.4 Abstract of valuation report prepared by appointed actuary (Forms 46 to 61) (rule 9.31)

Appendix 9.4A Abstract of valuation report for realistic valuation (rule 9.31(b))

Appendix 9.5 General insurance business: additional information on business ceded (rule 9.32)

Appendix 9.6 Certificates by directors and actuary and report of auditors (rules 9.34 and 9.35)

Appendix 9.7 Insurance statistics: other EEA States (Forms 91 to 94) (rule 9.37)

Appendix 9.8 Marine mutuals: items to be disregarded, directors’ certificates and auditors reports (rule 9.36A)

Appendix 9.9 Group Capital Adequacy (rule 9.40 to rule 9.42 and guidance 9.43)

The following appendices are deleted:

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)

Appendix 5.1 Relevant co-insurance operations (rule 5.5 and relevant co-insurance operation)

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

APPENDIX 3.2 (rule 3.7)

...

PART II

INDICES BY REFERENCE TO WHICH BENEFITS MAY BE DETERMINED

...

Appendix 4.2 [deleted]
Appendix 5.1 [deleted]
Appendix 6.1 [deleted]
Appendix 6.2 [deleted]

\^ See Guidance Note 4.1 and Guidance Note 9.1
\* 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 109 TO 179)

Introduction

1. (1) All the forms included in the part of the return to which this Appendix relates (Forms 1 to 3 and 109 to 179) 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 10-179 to follow]

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

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/ UK/ CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
<th>£000</th>
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<td></td>
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</tr>
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</table>

**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 guarantee 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 insurers, 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].
# 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

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
<th>£000</th>
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</table>

## 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 guarantee 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 guarantee fund requirement at line 21 is calculated as the share of the long-term insurance
business of \( \frac{1}{3}X + (R - S - U - X) \) 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).
Components of capital resources

Form 3
(Sheet 1)

Name of insurer
Global business
Financial year ended

<table>
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<tr>
<th>GL/UK/CM</th>
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<th>month</th>
<th>year</th>
<th>units</th>
</tr>
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<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
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<th>Long-term insurance business</th>
<th>Total as at this financial year</th>
<th>Total as at the end of the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

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
### Components of capital resources

**Name of insurer**
Global business

**Financial year ended**

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
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#### Tier two capital

<table>
<thead>
<tr>
<th>Description</th>
<th>Line</th>
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</thead>
<tbody>
<tr>
<td>Implicit items, (tier two waivers and amounts excluded from line 22)</td>
<td>41</td>
</tr>
<tr>
<td>Perpetual non-cumulative preference shares excluded from line 25</td>
<td>42</td>
</tr>
<tr>
<td>Innovative tier one capital excluded from line 27</td>
<td>43</td>
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<tr>
<td>Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)</td>
<td>44</td>
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<tr>
<td>Perpetual cumulative preference shares</td>
<td>45</td>
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<tr>
<td>Perpetual subordinated debt and securities</td>
<td>46</td>
</tr>
<tr>
<td>Upper tier two capital in related undertakings</td>
<td>47</td>
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<tr>
<td><strong>Upper tier two capital (44 to 47)</strong></td>
<td>49</td>
</tr>
<tr>
<td>Fixed term preference shares</td>
<td>51</td>
</tr>
<tr>
<td>Other tier two instruments</td>
<td>52</td>
</tr>
<tr>
<td>Lower tier two capital in related undertakings</td>
<td>53</td>
</tr>
<tr>
<td><strong>Lower tier two capital (51+52+53)</strong></td>
<td>59</td>
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#### Total tier two capital before restrictions (49+59)

<table>
<thead>
<tr>
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<td>61</td>
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#### Excess tier two capital

<table>
<thead>
<tr>
<th>Line</th>
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<td>62</td>
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#### Further excess lower tier two capital

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<thead>
<tr>
<th>Line</th>
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<tbody>
<tr>
<td>63</td>
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#### Total tier two capital after restrictions, before deductions (61-62-63)

<table>
<thead>
<tr>
<th>Line</th>
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<td>69</td>
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## Components of capital resources

### Form 3
(Sheet 3)

Name of insurer
- Global business

Financial year ended

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<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM day</th>
<th>month</th>
<th>year</th>
<th>units</th>
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<tr>
<td>R3</td>
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</table>

### 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

### 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 firms 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 firms 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 2.2.110G.

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;
   - (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;
   - (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;
   - (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 – i.e. 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 – i.e. 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 firms 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.

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

4. 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.

5. Line 64 must be Form 15.61.2 less 15.61.1.

6. 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

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
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<tbody>
<tr>
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<td></td>
<td>This financial year</td>
<td>Previous year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Gross premiums receivable**

This financial year: 11

**Premiums taxes and levies (included in line 11)**

This financial year: 12

**Premiums receivable net of taxes and levies (11-12)**

This financial year: 13

**Premiums for classes 11, 12 or 13 (included in line 13)**

This financial year: 14

**Premiums for “actuarial health insurance” (included in line 13)**

This financial year: 15

**Sub-total A**

\[(13 + \frac{1}{2} 14 - \frac{2}{3} 15)\]

This financial year: 15

<table>
<thead>
<tr>
<th>Division of Sub-total A if financial year is not a 12 month period to produce an annual figure</th>
</tr>
</thead>
</table>

**Other than health insurance**

Up to and including sterling equivalent of 50M EURO x 0.18

This financial year: 12

**Excess (if any) over 50M EURO x 0.16**

This financial year: 18

**Up to and including sterling equivalent of 50M EURO x 0.06**

This financial year: 19

**Division of Sub-total A if appropriate**

**Health insurance**

**Excess (if any) over 50M EURO x 0.16 / 3**

This financial year: 20

**Sub-total B**

\[(17+18+19+20)\]

This financial year: 21

**Gross premiums earned**

This financial year: 22

<table>
<thead>
<tr>
<th>Premiums taxes and levies (included in line 22)</th>
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</thead>
<tbody>
<tr>
<td>This financial year: 23</td>
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</table>

**Premiums earned receivable net of taxes and levies (21-22)**

This financial year: 24

<table>
<thead>
<tr>
<th>Division of Sub-total H if financial year is not a 12 month period to produce an annual figure</th>
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</thead>
</table>

**Other than health insurance**

Up to and including sterling equivalent of 50M EURO x 0.18

This financial year: 28

**Excess (if any) over 50M EURO x 0.16**

This financial year: 29

**Up to and including sterling equivalent of 50M EURO x 0.06**

This financial year: 30

**Division of Sub-total H**

**Health insurance**

**Excess (if any) over 50M EURO x 0.16 / 3**

This financial year: 31

**Sub-total I**

(higher of sub-total A and sub-total H)

\[(28+29+30+31)\]

This financial year: 32

<table>
<thead>
<tr>
<th>Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure</th>
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**Excess (if any) over 50M EURO x 0.02**

This financial year: 32

<table>
<thead>
<tr>
<th>Division of gross adjusted premiums amount: sub-total I (if appropriate)</th>
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</thead>
</table>

<table>
<thead>
<tr>
<th>Adjusted sub-total I (32-33) (32+33)</th>
</tr>
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</table>

This financial year: 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

<table>
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<tr>
<th>Company registration number</th>
<th>GL/ UK/ CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
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<td></td>
<td></td>
<td></td>
<td>£000</td>
</tr>
</tbody>
</table>

| 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 | 42 |
| For insurance business accounted for on an underwriting year basis | 43 |
| Claims outstanding brought forward at the beginning of the 3 year period | 44 |
| For insurance business accounted for on an underwriting 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 | 49 |
| (Sub-total D / sub-total C or, if more, 50% or, if less, 100%) | 50 |
| Premiums amount First result | 5049 |
| Sub-total J x reinsurance ratio | 5049 |
| G x Sub-total D / Sub-total C (or, if ½ is a greater fraction, x ½) | 51 |
| Provision for claims outstanding (before discounting and net of reinsurance) | 5150 |
| Brought forward amount (12.43.2 x 51.1 / 51.2 / 50.1 / 50.2 or, if less, 12.43.2) | 5254 |
| Greater of lines 50 and 52, 49 and 51 | 5352 |
Calculation of general insurance capital requirement—claims amount and result

<table>
<thead>
<tr>
<th>Name of insurer</th>
<th>Global business / UK branch business / EEA branch business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial year ended</td>
<td></td>
</tr>
<tr>
<td>General/long-term insurance business</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>R12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This financial year | Previous year

1. Reference period (No. of months) See PRU 7.2.63R
   - 11

2. Claims paid in reference period
   - 21

3. 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

4. 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

5. Claims incurred in reference period (21+22+23-24-25)
   - 26

6. Claims incurred for classes 11, 12 or 13 (included in 26)
   - 27

7. Claims incurred for "actuarial health insurance" (included in 26)
   - 28

8. Sub-total E (26 + \( \frac{1}{2} \times 27 - \frac{7}{2} \times 28) \)
   - 29

9. Division of sub-total E (gross adjusted claims amount)
   - x 0.26
   - 30

10. Excess (if any) over 35M EURO x 0.03
    - 31

11. Sub-total G (32 - 33)
    - 39

12. Claims amount
    - Sub-total G x reinsurance ratio (11.49)
    - 40

13. Higher of premiums amount and brought forward amount (11.53)
    - 41

14. General insurance capital requirement (higher of lines 41 and 42)
    - 42

15. Higher of premiums amount and brought forward amount (11.53)
    - 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.

**Premiums and claims**

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.

**Euro**

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.

**Actuarial health insurance**

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:
### Analysis of admissible assets

**Name of insurer**

Global business/UK branch business/EEA branch business

**Financial year ended**

**Category of assets**

<table>
<thead>
<tr>
<th>Category of assets</th>
<th>GL/UK/CM</th>
<th>Units</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due from ceding insurers and intermediaries under reinsurance business accepted</td>
<td>74</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from reinsurers and intermediaries under reinsurance contracts ceded</td>
<td>75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due in 12 months or less after the end of the financial year</td>
<td>76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due more than 12 months after the end of the financial year</td>
<td>77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due in 12 months or less after the end of the financial year</td>
<td>78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due more than 12 months after the end of the financial year</td>
<td>79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits not subject to time restriction on withdrawal, with approved credit institutions and approved financial institutions and local authorities</td>
<td>80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash in hand</td>
<td>81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued interest and rent</td>
<td>84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other prepayments and accrued income</td>
<td>86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salvage and subrogation recoveries</td>
<td>73</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>82</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets (particulars to be specified by way of supplementary note)</td>
<td>83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total sheet 3 (71 to 86 less 87)</td>
<td>88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand total of admissible assets after deduction of market risk and counterparty limits (39+69+88)</td>
<td>89</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Units</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td>Total in excess of the admissibility limits of Appendix 4.2 (as valued in accordance with those rules before applying admissibility limits)</td>
<td>92</td>
<td></td>
</tr>
<tr>
<td>Solvency margin deduction for subsidiary undertakings which are insurance undertakings</td>
<td>93</td>
<td></td>
</tr>
<tr>
<td>Capital resources requirement deduction for subsidiary undertakings which are insurance undertakings</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Other differences in the valuation of assets (other than for assets not valued above)</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
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 -

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

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

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

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,

(b) dependants of the firm must be valued in accordance with PRU 1.3.35R,

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

- It is an ancillary services undertaking which must be valued at zero;
• 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) 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.

### Long term insurance business liabilities and margins

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

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
<th>Category of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>R14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£000</td>
</tr>
</tbody>
</table>

#### As at end of this financial year 1

<table>
<thead>
<tr>
<th>Item</th>
<th>As at end of the previous year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mathematical reserves, after distribution of surplus</td>
<td>11</td>
</tr>
<tr>
<td>Cash bonuses which had not been paid to policyholders prior to end of the financial year</td>
<td>12</td>
</tr>
<tr>
<td>Balance of surplus / (valuation deficit)</td>
<td>13</td>
</tr>
<tr>
<td>Long term insurance business fund carried forward (11 to 13)</td>
<td>14</td>
</tr>
<tr>
<td>Claims outstanding which had fallen due for payment before the end of the financial year</td>
<td></td>
</tr>
<tr>
<td>Gross amount</td>
<td>15</td>
</tr>
<tr>
<td>Reinsurers' share</td>
<td>16</td>
</tr>
<tr>
<td>Net (15-16)</td>
<td>17</td>
</tr>
<tr>
<td>Provisions for other risks and charges</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>21</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
</tr>
<tr>
<td>Deposits received from reinsurers</td>
<td>23</td>
</tr>
<tr>
<td>Arising out of insurance operations</td>
<td></td>
</tr>
<tr>
<td>Direct insurance business</td>
<td>31</td>
</tr>
<tr>
<td>Reinsurance accepted</td>
<td>32</td>
</tr>
<tr>
<td>Reinsurance ceded</td>
<td>33</td>
</tr>
<tr>
<td>Debenture loans</td>
<td></td>
</tr>
<tr>
<td>Secured</td>
<td>34</td>
</tr>
<tr>
<td>Unsecured</td>
<td>35</td>
</tr>
<tr>
<td>Amounts owed to credit institutions</td>
<td>36</td>
</tr>
<tr>
<td>Other creditors</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>37</td>
</tr>
<tr>
<td>Other</td>
<td>38</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>39</td>
</tr>
<tr>
<td>Provisions for adverse changes (calculated in accordance with rule 5.3) Provision for &quot;reasonably foreseeable adverse variations.&quot;</td>
<td>41</td>
</tr>
<tr>
<td>Total other insurance and non-insurance liabilities (17 to 41)</td>
<td>49</td>
</tr>
<tr>
<td>Excess of the value of net admissible assets</td>
<td>51</td>
</tr>
<tr>
<td>Total liabilities and margins</td>
<td>59</td>
</tr>
</tbody>
</table>

#### As at end of this financial year 1

| 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.

62 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. 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.
<table>
<thead>
<tr>
<th>Name of insurer</th>
<th>Global business/UK branch business/EEA branch business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial year ended</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technical provisions (gross amount)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for unearned premiums</td>
<td>11</td>
</tr>
<tr>
<td>Claims outstanding</td>
<td>12</td>
</tr>
<tr>
<td>Provision for unexpired risks</td>
<td>13</td>
</tr>
<tr>
<td>Equalisation provisions</td>
<td></td>
</tr>
<tr>
<td>Credit business</td>
<td>14</td>
</tr>
<tr>
<td>Other than credit business</td>
<td>15</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
</tr>
<tr>
<td>Total (11 to 16)</td>
<td>19</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Provisions for other risks and charges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>21</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deposits received from reinsurers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Creditors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arising out of insurance operations</td>
<td></td>
</tr>
<tr>
<td>Direct insurance business</td>
<td>41</td>
</tr>
<tr>
<td>Reinsurance accepted</td>
<td>42</td>
</tr>
<tr>
<td>Reinsurance ceded</td>
<td>43</td>
</tr>
<tr>
<td>Debenture loans</td>
<td></td>
</tr>
<tr>
<td>Secured</td>
<td>44</td>
</tr>
<tr>
<td>Unsecured</td>
<td>45</td>
</tr>
<tr>
<td>Amounts owed to credit institutions</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>46</td>
</tr>
<tr>
<td>Other creditors</td>
<td></td>
</tr>
<tr>
<td>Recommended dividend</td>
<td>48</td>
</tr>
<tr>
<td>Other</td>
<td>49</td>
</tr>
</tbody>
</table>

| 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 2004 | 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:
### With-profits insurance capital component for the fund

**Name of insurer**
With-profits fund
Financial year ended
Units

<table>
<thead>
<tr>
<th>Regulatory excess capital</th>
<th>As at end of this financial year</th>
<th>As at end of the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory value of assets</td>
<td>Long-term admissible assets of the fund</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Implicit items allocated to the fund</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Mathematical reserves in respect of non-profit insurance contracts written in the fund</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>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</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Long-term admissible assets of the fund covering the resilience capital requirement allocated in respect of non-profit insurance contracts written in fund</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Total (11+12-(13+14+15))</td>
<td>19</td>
</tr>
<tr>
<td>Regulatory value of liabilities</td>
<td>Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Regulatory current liabilities of the fund</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>Total (21+22)</td>
<td>29</td>
</tr>
<tr>
<td>Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Resilience capital requirement in respect of the fund's with-profits insurance contracts</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Sum of regulatory value of liabilities, long-term insurance capital requirement and resilience capital requirement (29+31+32)</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Regulatory excess capital (19-39)</td>
<td>49</td>
<td></td>
</tr>
</tbody>
</table>

### 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).
Realistic balance sheet

Name of insurer
With-profits fund
Financial year ended
Units

<table>
<thead>
<tr>
<th>Realistic value of assets available to the fund</th>
<th>As at end of this financial year 1</th>
<th>As at end of the previous year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory value of assets</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Implicit items allocated to the fund</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Value of shares in subsidiaries held in fund (regulatory)</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Excess admissible assets</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Present value of future profits (or losses) on non-profit insurance contracts written in the fund</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Value of shares in subsidiaries held in fund (realistic)</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Prepayments made from the fund</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Realistic value of assets of fund (11+21+22+23+24+25-(12+13))</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Support arrangement assets</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Assets available to the fund (26+27)</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

| Realistic value of liabilities of fund         |                                 |
|------------------------------------------------|                                 |
| With-profits benefit reserve                   | 31                                |
| 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 |
### Realistic balance sheet

**Name of insurer**
**With-profits fund**
**Financial year ended**
**Units**

<table>
<thead>
<tr>
<th>Realistic excess capital and additional capital available</th>
<th>As at end of this financial year 1</th>
<th>As at end of the previous year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>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</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Value of relevant assets before applying the most adverse scenario (62+63)</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Risk capital margin for fund (62-59)</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Realistic excess capital for fund (26-(59+65))</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Realistic excess available capital for fund (29-(59+65))</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Working capital for fund (29-59)</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Working capital ratio for fund (68/29)</td>
<td>69</td>
<td></td>
</tr>
</tbody>
</table>

**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 PRU7.4.137R(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 must 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 ADDITIONAL INFORMATION
(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 (code 2001) to Form 20 -

8A Presentation of amounts

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.

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 (code 2002) to Form 20 –

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 (code 2302) and Form 24 (code 2403) -

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
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 Forms 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

The country codes required for **Forms 31, 32 and 34** must be in accordance with the following Table:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>QS</td>
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<tr>
<td>Albania</td>
<td>CE</td>
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<tr>
<td>Algeria</td>
<td>KA</td>
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<tr>
<td>Andorra</td>
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<td>Angola</td>
<td>MT</td>
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<td>Anguilla</td>
<td>GY</td>
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<td>Antigua And Barbuda</td>
<td>GP</td>
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<td>Bolivia</td>
<td>JL</td>
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<td>Bosnia and Herzegovina</td>
<td>CH</td>
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<td>Botswana</td>
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<td>Brazil</td>
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<td>Channel Islands</td>
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<td>Chile</td>
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<tr>
<td>China (Taiwan)</td>
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<td>China, Peoples Rep. Of</td>
<td>QJ</td>
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<td>Colombia</td>
<td>JD</td>
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<td>Comoros</td>
<td>MX</td>
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<td>Country</td>
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</tr>
<tr>
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<tr>
<td>Congo (Republic of)</td>
<td>MU</td>
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<td>European Currencies, Weighted Average Of</td>
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<td>Home Foreign-United Kingdom</td>
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<td>Honduras</td>
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<td>Iran</td>
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<td>Iraq</td>
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172
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<thead>
<tr>
<th>Country</th>
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<tbody>
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<td>BC</td>
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<tr>
<td>Isle Of Man</td>
<td>BB</td>
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<td>Israel</td>
<td>PC</td>
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<td>Jamaica</td>
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<td>Kenya</td>
<td>MA</td>
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<td>Kiribati</td>
<td>ED</td>
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<td>Kirghizia (alternate name for Kyrgystan)</td>
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<td>Korea, South</td>
<td>QR</td>
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<td>Korea, North</td>
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<td>Mali</td>
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<td>Malta</td>
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<td>Mozambique</td>
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<td>Namibia</td>
<td>NE</td>
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<td>Nauru</td>
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<td>Nepal</td>
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<td>Netherlands</td>
<td>BJ</td>
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<tr>
<td>Netherlands Antilles</td>
<td>GX</td>
</tr>
<tr>
<td>New Zealand</td>
<td>EB</td>
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Nicaragua
Niger
Nigeria
Northern Ireland
Norway
Oman
Pakistan
Palau
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Poland
Portugal
Puerto Rico
Qatar
Romania
Russia
Rwanda
San Marino
Sao Tome And Principle
Saudi Arabia
Scotland
Senegal
Seychelles
Sierra Leone
Singapore
Slovakia
Slovenia
Solomon Islands
Somalia
South Africa
Spain
Sri Lanka
St Helena And Dependencies
St Kitts-Nevis
St Lucia
St Martin
St Vincent and The Grenadines
Sudan
Surinam
Swaziland
Sweden
Switzerland
Syria
Tahiti
Tajikistan
Tanzania
Thailand
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.
Equalisation provisions

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>Period ended day</th>
<th>month</th>
<th>year</th>
<th>Units</th>
<th>£000</th>
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</thead>
<tbody>
<tr>
<td>R37</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Calculation of the maximum provision</th>
<th>Business group grouping A (property)</th>
<th>Business group grouping B (business interruption)</th>
<th>Business group grouping C (marine and aviation)</th>
<th>Business group grouping D (nuclear)</th>
<th>Business group grouping E (proportional treaty)</th>
<th>All business groups</th>
<th>Credit insurance business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total net premiums written in the previous 4 years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
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<tr>
<td>Net premiums written in the current year</td>
<td>11</td>
<td></td>
<td></td>
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<tr>
<td>Maximum provision</td>
<td>12</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Calculation of the transfer to/from the provision</th>
<th>Business group grouping A (property)</th>
<th>Business group grouping B (business interruption)</th>
<th>Business group grouping C (marine and aviation)</th>
<th>Business group grouping D (nuclear)</th>
<th>Business group grouping E (proportional treaty)</th>
<th>All business groups</th>
<th>Credit insurance business</th>
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<tr>
<td>Equalisation provision brought forward</td>
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<td>Transfers in</td>
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<tr>
<td>Total abnormal loss</td>
<td>23</td>
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<tr>
<td>Provisional transfers out</td>
<td>24</td>
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<tr>
<td>Excess of provisional transfer out over fund available</td>
<td>25</td>
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<tr>
<td>Provisional amount carried forward (21+22-24+25)</td>
<td>26</td>
<td></td>
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<tr>
<td>Excess, if any, of 26 over 13</td>
<td>27</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Equalisation provision carried forward (26-27)</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Transfer in/out for financial year (28-21)</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
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</table>
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 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 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 a 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.
Equalisation provisions technical account: Accident year accounting

Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>Period ended</th>
<th>Units</th>
<th>£000</th>
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<td>R38</td>
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</table>

<table>
<thead>
<tr>
<th>Other than credit business</th>
<th>Business group grouping A (property)</th>
<th>Business group grouping B (business interruption)</th>
<th>Business group grouping C (marine and aviation)</th>
<th>Business group grouping D (nuclear)</th>
<th>Business group grouping E (non-proportional treaty)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premiums earned</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Claims incurred net of reinsurance</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trigger claims value</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abnormal loss</td>
<td>19</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Trigger claims ratio</td>
<td>72.5%</td>
<td>72.5%</td>
<td>95%</td>
<td>25%</td>
<td>100%</td>
</tr>
</tbody>
</table>

| 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 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 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 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 grouping.

5. For each insurance business grouping the entry at line 19 must be the amount, if any, by which the entry at line 12 for that 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 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.
Name of insurer

Global business/UK branch business/EEA branch business

Financial year ended

<table>
<thead>
<tr>
<th>Business group grouping</th>
<th>Business group grouping A (property)</th>
<th>Business group grouping B (business interruption)</th>
<th>Business group grouping C (marine and aviation)</th>
<th>Business group grouping D (nuclear)</th>
<th>Business group grouping E (non-proportional treaty)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company registration number</td>
<td>GL/UK/CM</td>
<td>Period ended day</td>
<td>Period ended month</td>
<td>Period ended year</td>
<td>Units</td>
</tr>
<tr>
<td>R39</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£000</td>
</tr>
</tbody>
</table>

**Other than credit business**

- 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
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

(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 7.3.10R(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(2) 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:
**Long-term insurance business – analysis of valuation interest rate**

Name of insurer
Financial year ended
Category of surplus

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM</th>
<th>day</th>
<th>month</th>
<th>year</th>
<th>units</th>
<th>Category of surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>R57</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product group</th>
<th>Net mathematical reserves</th>
<th>Net valuation interest rate</th>
<th>Gross valuation interest rate</th>
<th>Risk adjusted yield on matching assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

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:
### Long term insurance capital requirement

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

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>GL/UK/CM day</th>
<th>month</th>
<th>year</th>
<th>units</th>
</tr>
</thead>
<tbody>
<tr>
<td>R60</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>LTICR factor</th>
<th>Gross reserves / capital at risk</th>
<th>Net reserves / capital at risk</th>
<th>Reinsurance factor</th>
<th>LTICR Financial year</th>
<th>LTICR Previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

#### Insurance death risk capital component

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Classes I, II and IX</td>
</tr>
<tr>
<td>Classes I, II and IX</td>
</tr>
<tr>
<td>Classes I, II and IX</td>
</tr>
<tr>
<td>Classes III, VII and VIII</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

#### Insurance health risk capital component

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Class IV and supplementary classes 1 and 2</td>
</tr>
</tbody>
</table>

#### Insurance expense risk capital component

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Classes I, II and IX</td>
</tr>
<tr>
<td>Classes III, VII and VIII (investment risk)</td>
</tr>
<tr>
<td>Classes III, VII and VIII (expenses fixed 5 yrs +)</td>
</tr>
<tr>
<td>Classes III, VII and VIII (other)</td>
</tr>
<tr>
<td>Class IV</td>
</tr>
<tr>
<td>Class V</td>
</tr>
<tr>
<td>Class VI</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

#### Insurance market risk capital component

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Classes I, II and IX</td>
</tr>
<tr>
<td>Classes III, VII and VIII (investment risk)</td>
</tr>
<tr>
<td>Classes III, VII and VIII (expenses fixed 5 yrs +)</td>
</tr>
<tr>
<td>Classes III, VII and VIII (other)</td>
</tr>
<tr>
<td>Class IV</td>
</tr>
<tr>
<td>Class V</td>
</tr>
<tr>
<td>Class VI</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

#### 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 where the original term of the contract is 3 years or less 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:

\[
A \quad \text{is the total } claims \text{ paid during the financial year on } with-profits \text{ insurance contracts written in that fund; and}
\]

\[
B \quad \text{is the sum of:}
\]

(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
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:

<table>
<thead>
<tr>
<th>Asset type (all UK assets)</th>
<th>K=0.75</th>
<th>K=1</th>
<th>K=1.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>n</td>
<td>5 15 25 35</td>
<td>5 15 25 35</td>
<td>5 15 25 35</td>
</tr>
<tr>
<td>r</td>
<td>x x x x</td>
<td>x x x x</td>
<td>x x x x</td>
</tr>
<tr>
<td>Risk-free zero coupon bond</td>
<td>x x x x</td>
<td>x x x x</td>
<td>x x x x</td>
</tr>
<tr>
<td>FTSE All Share Index (p=1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FTSE All Share Index (p=0.8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property (p=1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property (p=0.8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 year risk free zero coupon bonds (p=1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>15 year risk free zero coupon bonds (p=0.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>15 year corporate bonds (p=1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>15 year corporate bonds (p=0.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Portfolio of 65% FTSE All Share and 35% property (p=1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Portfolio of 65% FTSE All Share and 35% property (p=0.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Portfolio of 65% equity and 35% 15 risk free zero coupon bonds (p=0.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Portfolio of 40% equity, 15% property, 22.5% 15 year risk free zero coupon bonds and 22.5% 15 year corporate bonds (p=1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>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)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Receiver swaptions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 \( K \times \£1,000,000 \times (1+r^p)^n \).

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 9.325, 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.

CERTIFICATES BY DIRECTORS AND ACTUARY AND REPORTS 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,

(viii) 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

(iviii) 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.
Marine mutuals: Statement of solvency assets and liabilities

Name of insurer

Financial year ended

<table>
<thead>
<tr>
<th>Company registration number</th>
<th>Period ended day</th>
<th>Period ended month</th>
<th>Period ended year</th>
<th>Units (See instruction 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M2</td>
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</table>

<table>
<thead>
<tr>
<th>ASSETS</th>
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<tbody>
<tr>
<td>Admissible assets</td>
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<td></td>
</tr>
<tr>
<td>Calls approved by the Board but unmade at the end of the financial year</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total (11+12)</td>
<td>19</td>
<td></td>
<td></td>
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<table>
<thead>
<tr>
<th>LIABILITIES</th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unexpended contributions and uineared premiums and any additional amounts set aside for unexpired risks, gross of</td>
<td>21</td>
<td></td>
<td></td>
<td>See instruction 2</td>
</tr>
<tr>
<td>reinsurance and deferred acquisition costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross provision for outstanding claims</td>
<td>22</td>
<td></td>
<td></td>
<td>See instruction 3</td>
</tr>
<tr>
<td>Creditors</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>25</td>
<td></td>
<td></td>
<td>See instruction 4</td>
</tr>
<tr>
<td>Total (21 to 25)</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REQUIRED-MINIMUM MARGIN</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net admissible assets (19-29)</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calls unapproved by the Board at the end of the financial year</td>
<td>32</td>
<td></td>
<td></td>
<td>See instruction 5</td>
</tr>
<tr>
<td>Available net assets (31+32)</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required minimum margin</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess (deficiency) of available net assets over the required minimum margin (33-34)</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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:

1. **TIER 1**
   - Group core tier one
     - Sum of column G1 (page 4)
   - Group perpetual non-cumulative preference shares
     - Sum of column G2 (page 4)
   - Group innovative tier one
     - Sum of column G3 (page 4)
   - Deductions from tier one
     - Sum of column C (page 2)
   - **Total group tier one capital**
     - $H1 + H2 + H3 – H4$
   - **Limits 1, 2 & 3**
     - TT1

2. **TIER 2**
   - Group upper tier two
     - Sum of column G4 (page 4)
   - Group lower tier two
     - Sum of column G5 (page 4)
   - **Total group tier two capital**
     - $H5 + H6$
   - **Limits 4 & 5**
     - TT2

3. **Total group tier two capital**
   - $TT1 + TT2$
   - **Limit 6**
     - TCR

4. **Group capital resources before deductions**
   - Sum of column D1 & D2 (page 2)
   - **Group capital resources**
     - $TCR – H7$
   - **Group capital resources requirement**
     - Sum of column B (page 2)
   - **Group surplus/ (deficit)**
     - $GCR – GCRR$
   - $I$
## INSURANCE GROUP CAPITAL ADEQUACY (page 2)

Name of reporting insurance firm:  
Name of insurance parent undertaking:

<table>
<thead>
<tr>
<th>Related undertaking 1</th>
<th>Related undertaking 2</th>
<th>Related undertaking 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of related undertaking</td>
<td>% interest</td>
<td>Type of firm</td>
</tr>
<tr>
<td>Parent:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Totals:  

---

This table is part of the INSURANCE GROUP CAPITAL ADEQUACY REPORTING FORM, which provides information about the capital adequacy of insurance groups.
<table>
<thead>
<tr>
<th>A</th>
<th>Name of related undertaking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E1</th>
<th>E2</th>
<th>E3</th>
<th>E4</th>
<th>E5</th>
<th>F1</th>
<th>F2</th>
<th>F3</th>
<th>F4</th>
<th>F5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core tier 1</td>
<td>Perpetual non-cumulative preference shares</td>
<td>Innovative tier 1</td>
<td>Upper tier 2</td>
<td>Lower tier 2</td>
<td>Core tier 1</td>
<td>Perpetual non-cumulative preference shares</td>
<td>Innovative tier 1</td>
<td>Upper tier 2</td>
<td>Lower tier 2</td>
</tr>
</tbody>
</table>

**Group’s investment in the capital resources of related undertakings**

**Components of the capital resources of related undertakings**
**INSURANCE GROUP CAPITAL ADEQUACY (page 4)**

Name of reporting insurance firm:
Name of insurance parent undertaking:

<table>
<thead>
<tr>
<th>A</th>
<th>Name of related undertaking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Related undertaking 1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Related undertaking 2</th>
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</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Related undertaking 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Parent’s Capital Resources (by class of capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

**Net Contribution to Group Capital Resources**

<table>
<thead>
<tr>
<th>Core tier 1</th>
<th>Perpetual non-cumulative preference shares</th>
<th>Innovative tier 1</th>
<th>Upper tier 2</th>
<th>Lower tier 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>G1</td>
<td>G2</td>
<td>G3</td>
<td>G4</td>
<td>G5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>=F1-E1</th>
<th>=F2-E2</th>
<th>=F3-E3</th>
<th>=F4-E4</th>
<th>=F5-E5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

221
**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).
<table>
<thead>
<tr>
<th>Ref</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>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.</td>
</tr>
<tr>
<td>B</td>
<td>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.</td>
</tr>
<tr>
<td>C</td>
<td>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.</td>
</tr>
<tr>
<td>D1</td>
<td>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)</td>
</tr>
<tr>
<td>D2</td>
<td>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)</td>
</tr>
</tbody>
</table>
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].

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)).
### Form 95: Insurance Group Capital Adequacy Reporting Instructions

<table>
<thead>
<tr>
<th>Ref</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>G1</td>
<td>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).</td>
</tr>
<tr>
<td>G2</td>
<td>Similarly G2 is the difference between F2 and E2, G3 is the difference between F3 and E3 etc. (G2, G3, G4 &amp; G5 would normally be positive).</td>
</tr>
<tr>
<td>G3</td>
<td>The totals of columns G1, 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).</td>
</tr>
<tr>
<td>G4</td>
<td>The sum of columns G4 and G5 represent the group's tier two capital resources (see H5 and H6).</td>
</tr>
<tr>
<td>G5</td>
<td></td>
</tr>
</tbody>
</table>

| 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. |

<p>| H1    | 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. |
| H2    |                                                                                                                                                                                                              |
| H3    |                                                                                                                                                                                                              |
| H4    | (page 1)                                                                                                                                                                                                     |</p>
<table>
<thead>
<tr>
<th>Ref</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TT1</td>
<td>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:</td>
</tr>
<tr>
<td></td>
<td>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)).</td>
</tr>
<tr>
<td></td>
<td>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)).</td>
</tr>
<tr>
<td></td>
<td>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)).</td>
</tr>
<tr>
<td></td>
<td>Any capital item excluded by limit 3 may form part of total group tier two capital (see PRU 8.3.46G).</td>
</tr>
<tr>
<td>H5</td>
<td>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.</td>
</tr>
<tr>
<td>H6</td>
<td></td>
</tr>
<tr>
<td>TT2</td>
<td>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:</td>
</tr>
<tr>
<td></td>
<td>Limit 4: Total group tier two capital must not exceed total group tier one capital (see PRU 8.3.45R(1)(e)).</td>
</tr>
<tr>
<td></td>
<td>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)).</td>
</tr>
</tbody>
</table>
## FORM 95: INSURANCE GROUP CAPITAL ADEQUACY REPORTING INSTRUCTIONS

<table>
<thead>
<tr>
<th>Ref</th>
<th>Instructions</th>
</tr>
</thead>
</table>
| 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 Note P.1 Systems and controls over the investments (and counterparty exposure) with particular reference to the use of derivatives (Principles for business) [deleted]

Guidance Note P.2 Systems and controls over general business claims provisions (Principles for business) [deleted]

Guidance Note P.3 Systems and controls in insurers [deleted]

Guidance Note 2.1 Hybrid capital: admissibility for solvency (rule 6.1 and required 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 4.4 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]

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 I 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]
<table>
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<tr>
<th>DAA11</th>
<th>[deleted]</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAA13</td>
<td>[deleted]</td>
</tr>
</tbody>
</table>
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 PRU 7.6.13R prevents an insurer from carrying on an insurance mediation activity ...

...

1 Annex 2G – Summary of Handbook provisions for insurance intermediaries

2. Table

<table>
<thead>
<tr>
<th>Business Standards</th>
<th>Interim Prudential sourcebooks</th>
<th>…</th>
</tr>
</thead>
<tbody>
<tr>
<td>… Prudential sourcebook</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>PRU 9.1 – PRU 9.3</td>
<td>Applies in respect of (1).</td>
<td>…</td>
</tr>
<tr>
<td>PRU 9.4</td>
<td>Applies in respect of (1) where the insurance intermediary is also an insurer or a mortgage lender.</td>
<td>…</td>
</tr>
<tr>
<td>PRU 9.4</td>
<td>Applies in respect of (1) where the insurance intermediary is also a mortgage lender.</td>
<td>…</td>
</tr>
</tbody>
</table>

... 4.2.13 G (1) ...

(2) IPRU(INS) 1.3R PRU 7.6.13R (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) and in the Integrated Prudential Sourcebook (PRU) in the Business Standards part of the Handbook. In addition to PRU there are five interim 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 or section of PRU 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, PRU, 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 PRU or in 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) 8.403R 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

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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
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 companies, 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))
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2.12.8  R Summary balance sheet (see SUP App 2.12.1R(2)(b))

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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 generally accepted actuarial best practice.

...

8.2.7 G Table Rules which can be waived (see SUP 8.2.6G)

<table>
<thead>
<tr>
<th>Rules</th>
<th>Section of the Act or other provision under which rules are made</th>
<th>Chapters of the Handbook where such rules appear (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance business rules</td>
<td>Section 141</td>
<td>IPRU(INS) PRU</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 and in PRU:

... (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-; and

(d) for an insurer: PRU 2.3.13G and PRU 2.3.14G.
10.12.3 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 and IPRU(BSOC) OS, and for insurers SYSC 3A.9.

15.3.8 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, and a building society should also see IPRU(BSOC) 4.2,11 OS 4.2, and an insurer should also see SYSC 3A.9 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>
<thead>
<tr>
<th>Business Standards</th>
<th>5 Interim Prudential sourcebooks</th>
<th>IPRU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated Prudential Sourcebook</td>
<td>PRU</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</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

<table>
<thead>
<tr>
<th>Block</th>
<th>Module</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 2 (Business Standards)</td>
<td>Interim Prudential sourcebooks: IPRU(INS), IPRU(FSOC), IPRU(BANK), IPRU(BSOC) and IPRU(INV) Integrated Prudential Sourcebook (PRU)</td>
<td>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.</td>
</tr>
</tbody>
</table>
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.

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:

$$\text{NWP} \times \frac{365}{\text{D}}$$

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.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>claims amount</strong></td>
<td>an amount, as defined in PRU 7.2.47R, used in the calculation of the general insurance capital requirement.</td>
</tr>
<tr>
<td><strong>commitment</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>compensation fund</strong></td>
<td>any policyholder compensation scheme in any EEA State.</td>
</tr>
<tr>
<td><strong>composite firm</strong></td>
<td>a firm that carries on both long-term insurance business and general insurance business.</td>
</tr>
<tr>
<td><strong>contingency funding plan</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>core tier one capital</strong></td>
<td>an item of capital that is stated in stage A of the table in PRU 2.2.14R to be core tier one capital.</td>
</tr>
<tr>
<td><strong>coupon</strong></td>
<td>a dividend, interest payment or any similar payment.</td>
</tr>
<tr>
<td><strong>credit equalisation provision</strong></td>
<td>the provision required to be established by PRU 7.5.43R.</td>
</tr>
<tr>
<td><strong>CRR</strong></td>
<td>capital resources requirement.</td>
</tr>
<tr>
<td><strong>deposit back arrangement</strong></td>
<td>(in relation to any contract of reinsurance) an arrangement whereby an amount is deposited by the reinsurer with the cedant.</td>
</tr>
<tr>
<td><strong>ECR</strong></td>
<td>enhanced capital requirement.</td>
</tr>
<tr>
<td><strong>EEA-deposit insurer</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>EEA insurance parent undertaking</strong></td>
<td>an insurance parent undertaking that has its head office in the United Kingdom or another EEA State.</td>
</tr>
<tr>
<td><strong>EEA MCR</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>enhanced capital requirement</strong></td>
<td>(1) (in relation to a firm carrying on general insurance business) the amount calculated in accordance with PRU 2.3.11R.</td>
</tr>
<tr>
<td></td>
<td>(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.</td>
</tr>
<tr>
<td><strong>equalisation provision</strong></td>
<td>a provision required to be established under the rules in PRU 7.5.</td>
</tr>
</tbody>
</table>
**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.


**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.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>unearned premium</td>
<td>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.</td>
</tr>
<tr>
<td>unpaid initial fund</td>
<td>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.</td>
</tr>
<tr>
<td>unsecured debt</td>
<td>debt that does not fall within the definition of secured debt.</td>
</tr>
<tr>
<td>upper tier two capital resources</td>
<td>the sum calculated at stage G of the calculation in PRU 2.2.14R.</td>
</tr>
<tr>
<td>upper tier two instrument</td>
<td>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.</td>
</tr>
<tr>
<td>volatility risk</td>
<td>the potential loss due to fluctuations in implied option volatilities.</td>
</tr>
<tr>
<td>with-profits benefits reserve</td>
<td>(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.</td>
</tr>
<tr>
<td>with-profits insurance business</td>
<td>the business of effecting or carrying out with-profits insurance contracts.</td>
</tr>
<tr>
<td>with-profits insurance capital component</td>
<td>the capital component for with-profits insurance business of a realistic basis life firm calculated in accordance with PRU 7.4.</td>
</tr>
<tr>
<td>with-profits insurance contract</td>
<td>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.</td>
</tr>
<tr>
<td>with-profits insurance liabilities</td>
<td>insurance liabilities arising from with-profits insurance business.</td>
</tr>
<tr>
<td>WPICC zilmerising</td>
<td>with-profits insurance capital component. 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.</td>
</tr>
</tbody>
</table>
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(ESOC), 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.

dischonating (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**


**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 (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.

(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 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) …
an item of capital that is specified in stages A, B or C of the table in PRU 2.2.14R.

(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.
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:

<table>
<thead>
<tr>
<th>permitted derivative contract</th>
<th>(a) for the purpose of Appendix 3.2, a derivative contract or quasi-derivative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(i) which is ‘covered’ and—</td>
</tr>
<tr>
<td></td>
<td>(ii) which is held in connection with ‘property’ for the purposes of—</td>
</tr>
<tr>
<td></td>
<td>(a) which has the effect of a permitted derivative contract held in—</td>
</tr>
<tr>
<td></td>
<td>(b) which satisfies the conditions in rules 4.12(6) to (8) except that the</td>
</tr>
<tr>
<td></td>
<td>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;</td>
</tr>
<tr>
<td></td>
<td>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:</td>
</tr>
<tr>
<td></td>
<td>(a) in PRU 4.3.5R and PRU 4.3.36R, &quot;For the purpose of PRU 2 Ann 1R (Admissible assets in</td>
</tr>
</tbody>
</table>
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:

|   | IPRU(INS) rule 9.31(b) and Appendix 9.4A, paragraphs 4(2), 6(3) and 13 | R | 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). |
|   | From 31 December 2004 until 29 June 2005 |

(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).

Addendum
22 December 2004