

PERMITTED LINKS (AMENDMENT) INSTRUMENT 2007**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); and
 - (5) section 157(1) (Guidance).
- 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) Annex F and Part 2 of Annex A come into force on 1 November 2007;
 - (2) the remainder of this instrument comes into force on 6 October 2007.

Amendments to the Handbook

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

(1)	(2)
Glossary	Annex A
Prudential sourcebook for Insurers (INSPRU)	Annex B
Interim Prudential sourcebook for Insurers (IPRU(INS))	Annex C
Interim Prudential sourcebook for Friendly Societies (IPRU(FSOC))	Annex D
Conduct of Business sourcebook (COB)	Annex E
New Conduct of Business Sourcebook (COBS)	Annex F
Supervision manual (SUP)	Annex G

Citation

- E. This instrument may be cited as the Permitted Links (Amendment) Instrument 2007.

By order of the Board
27 September 2007

Annex A

Amendments to the Glossary of definitions

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 (comes into force on 6 October 2007)

Insert the following new definitions in the appropriate alphabetical position.

<i>approved index</i>	<p>in relation to <i>permitted links</i>:</p> <p>(a) an index that is:</p> <ul style="list-style-type: none">(i) calculated independently;(ii) published at least once every week;(iii) based on constituents that are <i>permitted links</i>; and(iv) calculated on a basis that is made available to the public, and that excludes 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; or <p>(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 <i>Banking Consolidation Directive</i>; or</p> <p>(c) an index that is:</p> <ul style="list-style-type: none">(i) based on constituents that are <i>permitted links</i>; and(ii) in respect of which a <i>derivative</i> contract is <i>listed</i>.
<i>close matching rules</i>	for the purposes of <i>permitted links</i> , the <i>rules</i> in <i>INSPRU</i> 1.1.34R, <i>INSPRU</i> 3.1.57R, <i>INSPRU</i> 3.1.58R, and <i>INSPRU</i> 3.1.59G.
<i>inception</i>	in relation to <i>permitted links</i> , refers to the time when the liability of the <i>insurer</i> under a <i>linked long-term</i> contract of insurance commenced, and for this purpose, a contract providing continuous cover is deemed to commence on each anniversary date of the contract.
<i>index-linked assets</i>	in relation to <i>permitted links</i> , the assets held by an <i>insurer</i> for the purposes of matching <i>index-linked liabilities</i> .
<i>index-linked contract</i>	a <i>linked long-term</i> contract conferring <i>index-linked benefits</i> .
<i>institutional linked policyholders</i>	in relation to <i>permitted links</i> , <i>linked policyholders</i> who are trustees of a <i>defined benefit occupational pension scheme</i> .

<i>linked assets</i>	<i>index-linked assets</i> or <i>property-linked assets</i> .
<i>linked fund</i>	a real or notional account to which an <i>insurer</i> appropriates <i>linked assets</i> for the purposes of their being <i>permitted links</i> , and which may be subdivided into units, the value of each of which is determined by the <i>insurer</i> by reference to the value of those <i>linked assets</i> .
<i>linked liabilities</i>	<i>property-linked liabilities</i> or <i>index-linked liabilities</i> .
<i>linked policyholders</i>	<i>policyholders</i> under a <i>linked long-term</i> contract.
<i>permitted deposits</i>	in relation to <i>permitted links</i> , <i>deposits</i> with any of the following: <ul style="list-style-type: none"> (a) an <i>approved credit institution</i>; or (b) an <i>approved financial institution</i>; or (c) an <i>approved investment firm</i>.
<i>permitted derivatives contract</i>	in relation to <i>permitted links</i> , a contract involving a <i>derivative</i> or <i>quasi-derivative</i> that satisfies <i>INSPRU 3.2.5R</i> to <i>INSPRU 3.2.35AG</i> with the exception of <i>INSPRU 3.2.18R</i> , as applied in relation to assets covering liabilities in respect of <i>linked long-term</i> contracts of insurance.
<i>permitted land and property</i>	in relation to <i>permitted links</i> , any interest in land (and any buildings situated on it) provided that: <ul style="list-style-type: none"> (a) it is considered by the <i>firm</i> to be located in a territory with a properly functioning market, indicated by the following criteria: <ul style="list-style-type: none"> (i) a lack of artificial barriers, including barriers to foreign ownership and repatriation of capital; (ii) fair and accurate valuation; (iii) suitably qualified and independent surveyors; (iv) accurate financial information; (v) enforceable contractual and other property rights; (vi) clarity of taxation; (vii) availability of reliable economic and property market data; (viii) ethical transaction standards; and (b) it is: <ul style="list-style-type: none"> (i) owned directly by the <i>firm</i>; or (ii) held in a structure, or a series of structures, that do not pose a materially greater risk to <i>linked policyholders</i> than a direct holding; and (c) it is not geared in excess of 10% of the gross asset value of the <i>linked fund</i> excluding any amounts represented by holdings in

property detailed in *permitted scheme interests* (b) (i) to (iv). But this percentage restriction does not apply if the relevant *policyholder* or trustee or operator acting on behalf of an individual beneficiary requests, directly or indirectly, the *firm* to hold those investments based on the risk profile and objectives, stipulated by and specific for that individual under an investment management agreement with that individual.

- permitted links* the property in COB 6.14.13R that an insurer may use for the purposes of determining *property-linked benefits* or *index-linked benefits* under *linked long-term* contracts of insurance.
- permitted loans* in relation to *permitted links*, a loan with any of the following:
- (a) an *approved credit institution*; or
 - (b) an *approved financial institution*; or
 - (c) an *approved investment firm*; or
 - (d) any person, provided that the loan:
 - (i) is documented in a written agreement setting out the rate of interest and the amount of, and due dates for, repayments; and
 - (ii) is fully secured by a mortgage or charge on *permitted land and property* that, if made to someone other than a body corporate, is not used wholly or mainly for domestic purposes.
- permitted stock lending* in relation to *permitted links*, a *stock lending* transaction (including a *repo* transaction) that satisfies *INSPRU 3.2.36AR* to *INSPRU 3.2.42G* (inclusive).
- permitted scheme interests*
- (a) in respect of a firm's business with *institutional linked policyholders* only, any of the following:
 - (i) a *qualified investor scheme* or its *EEA* equivalent;
 - (ii) any *unregulated collective investment scheme* that invests only in *permitted links* and publishes its prices regularly;
 - (iii) any of the interests set out in (b)(i) to (b)(iv);
 - (b) in respect of a firm's business with *linked policyholders* other than those described in (a), any of the following:
 - (i) an *authorised fund*;
 - (ii) a *recognised scheme*;
 - (iii) a *UCITS scheme*;
 - (iv) a *non-UCITS retail scheme*;
 - (v) a *qualified investor scheme* or its *EEA* equivalent or any *unregulated collective investment scheme* that invests only in *permitted links* and publishes its prices regularly, provided that no more than 20% of the gross assets of the *linked fund* are so

invested.

permitted units in relation to *permitted links*, units or beneficial interests in any real or notional fund that invests only in *permitted links* and is managed either:

- (a) wholly by the *insurer*; or
- (b) wholly or partly by:
 - (i) an agent on behalf of the *insurer*; or
 - (ii) a *reinsurer* in relation to a *reinsurance contract* with the *insurer*;

for whom the *insurer* retains all responsibility towards its *linked policyholders*.

permitted unlisted securities in relation to *permitted links*, means any investment (including a *share*, *debt security*, *Treasury Bill*, Tax Reserve Certificate or Certificate of Tax Deposit) that is not a *listed security*, but provided always that it is realisable in the short term.

property-linked assets in relation to an *insurer*, *long-term insurance assets* that are, for the time being, identified in the records of the *insurer* as being assets by reference to the value of which *property-linked benefits* are to be determined.

Amend the following definitions as shown.

- approved security* ...
- (3) (in COB) any of the following:
 - (a) any security issued or guaranteed by, or the repayment of the principal of which, or the interest on which is guaranteed by, and any loan to or deposit with, any government, public or local authority or nationalised industry or undertaking that belongs to Zone A as defined in the *Banking Consolidation Directive*; or
 - (b) any loan to, or deposit with, an *approved financial institution*; or
 - (c) debentures issued before 31 December 1994 by the *Agricultural Mortgage Corporation Ltd* or the *Scottish Agricultural Securities Corporation Ltd*.
- linked benefit* (1) (in COB 6.14 (Permitted Links)) *property-linked benefits* or *index-linked benefits*.
- (2) (other than in COB 6.14) a benefit payable under a *life policy* ...
- reinsurance* (in COB, *ICOB*, CASS 5 and *COMP*) a *contract of insurance* covering all or

contract part of a risk to which a *person* is exposed under a *contract of insurance*.

Part 2 (comes into force on 1 November 2007)

Amend the following definitions as shown.

<i>approved security</i>	... (3) (in COB <u>COBS</u>) any of the following: (a) any <i>security</i> issued or guaranteed by, or the repayment of the principal of which, or the interest on which is guaranteed by, and any loan to or deposit with, any government, public or local authority or nationalised industry or undertaking that belongs to Zone A as defined in the <i>Banking Consolidation Directive</i> ; or (b) any loan to, or deposit with, an <i>approved financial institution</i> ; or (c) debentures issued before 31 December 1994 by the Agricultural Mortgage Corporation Ltd or the Scottish Agricultural Securities Corporation Ltd.
<i>linked benefit</i>	(1) (in COB 6.14 (Permitted Links) <u>COBS 21 (Permitted Links)</u>) <i>property-linked benefits</i> or <i>index-linked benefits</i> . (2) (other than in COB 6.14 <u>COBS 21</u>) a benefit payable under a <i>life policy</i> ...
<i>permitted links</i>	the property in COB 6.14.13R <u>COBS 21.3.1R</u> that an insurer may use for the purposes of determining <i>property-linked benefits</i> or <i>index-linked benefits</i> under <i>linked long-term</i> contracts of insurance.
<i>reinsurance contract</i>	(in COB <u>COBS 21</u> , <i>ICOB</i> , <i>CASS 5</i> and <i>COMP</i>) a <i>contract of insurance</i> covering all or part of a risk to which a <i>person</i> is exposed under a <i>contract of insurance</i> .

Annex B

Amendments to the Prudential sourcebook for Insurers (INSPRU)

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

Derivatives and quasi-derivatives

- 3.2.5 R For the purpose of *GENPRU 2 Annex 7* (Admissible assets in insurance), and also in relation to *permitted links*, a derivative or quasi-derivative is approved if:

...

Efficient portfolio management

- 3.2.6 R A *derivative* or *quasi-derivative* is held for the purpose of efficient portfolio management if the *firm* reasonably believes the *derivative* or *quasi-derivative* (either alone or together with any other covered transactions) enables the *firm* to achieve its investment objectives by one of the following (or, in relation to *permitted links*, in a manner which includes but is not limited to):

- (1) generating additional capital or income in one of the ways described in *INSPRU 3.2.7R*; or
- (2) reducing tax or investment cost in relation to *admissible assets* or *permitted links*; or
- (3) acquiring or disposing of rights in relation to *admissible assets* or *permitted links*, or their equivalent, more efficiently or more effectively.

Generation of additional capital or income

- 3.2.7 R The generation of additional capital or income falls within *INSPRU 3.2.6R(1)* where it arises from:
- (1) taking advantage of pricing imperfections in relation to the acquisition and disposal (or disposal and acquisition) of rights in relation to assets the same as, or equivalent to, *admissible assets* or *permitted links*; or
 - (2) receiving a premium for selling a covered call *option* or its equivalent, the underlying of which is an *admissible asset* or *permitted link*, even if that additional capital or income is obtained at the expense of surrendering the chance of greater capital or income.

...

- 3.2.17 R An obligation to pay a monetary amount (whether or not falling in *INSPRU*

3.2.16R) is covered if

- (1) the *firm* holds *admissible assets* or *permitted links* that are sufficient in value so that the *firm* reasonably believes that following reasonably foreseeable adverse variations (relying solely on cashflows from, or from realising, those assets) it could pay the monetary amount in the right currency when it falls due; or

...

Stock lending

...

- 3.2.36A R (1) For the purposes of the rules on *permitted links*, a *stock lending* transaction (including a *repo* transaction) is approved if:
- (a) the assets lent are *permitted links*;
 - (b) the *counterparty* is an *authorised person*, an *approved counterparty*, a *person* registered as a broker-dealer with the Securities and Exchange Commission of the United States of America or a bank, or a branch of a bank, supervised, and authorised to deal in investments as principal, with respect to *OTC derivatives* by at least one of the following federal banking supervisory authorities in the United States of America:
 - (i) the Office of the Comptroller of the Currency;
 - (ii) the Federal Deposit Insurance Corporation;
 - (iii) the Board of Governors of the Federal Reserve System; and
 - (iv) the Office of Thrift Supervision; and
 - (c) adequately and sufficiently immediate *collateral* (INSPRU 3.2.38R to INSPRU 3.2.41R) is obtained to secure the obligation of the *counterparty*; and
 - (d) provided that, for the purposes of *property-linked assets* only:
 - (i) where the *linked policyholder* bears the whole of the risk associated with the *stock lending* transaction, they must receive the whole of the recompense (net of fees and expenses);
 - (ii) the extent of any risk that the *linked policyholder* bears in relation to the *stock lending* transaction must be disclosed to them; and

(iii) where the risk associated with the *stock lending* transaction is borne outside the *linked fund*, the *linked fund* should receive a fair and reasonable recompense for the use of the *linked policyholders' funds*.

(2) *INSPRU 3.2.36R(1)(c)* does not apply to a *stock lending* transaction made through Euroclear Bank SA/NV's Securities Lending and Borrowing Programme.

Annex C

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

In this Annex, text is being deleted. The deleted text is not shown struck through.

The provisions of rules 3.6, 3.7 and Appendix 3.2 of IPRU(INS) are deleted:

IPRU(INS) rule 3.6	[deleted]
IPRU(INS) rule 3.7	[deleted]
IPRU(INS) Appendix 3.2	[deleted]

The following definitions set out in Chapter 11.1 of IPRU(INS) are also deleted in their entirety:

<i>approved index</i>	[deleted]
<i>approved securities</i>	[deleted]
<i>collective investment fund</i>	[deleted]
<i>linked assets</i>	[deleted]
<i>listed</i>	[deleted]
<i>market value</i>	[deleted]
<i>permitted connected property</i>	[deleted]
<i>permitted derivative contract</i>	[deleted]
<i>permitted stock lending transaction</i>	[deleted]
<i>property linked contract</i>	[deleted]
<i>regulated market</i>	[deleted]

Annex D

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

In this Annex, text is being deleted. The deleted text is not shown struck through.

The provisions of rules 4.12(3), 4.12(4), 4.21, 4.22, 4.23 and Appendix 3 of IPRU(FSOC) are deleted:

IPRU(FSOC)) rule 4.12(3)	[deleted]
IPRU(FSOC)) rule 4.12(4)	[deleted]
IPRU(FSOC)) rule 4.21	[deleted]
IPRU(FSOC)) rule 4.22	[deleted]
IPRU(FSOC)) rule 4.23	[deleted]
IPRU(FSOC)) Appendix 3	[deleted]

The following definitions set out in Chapter 7.1 of IPRU(FSOC) are also deleted in their entirety:

<i>approved index</i>	[deleted]
<i>collective investment fund</i>	[deleted]
<i>index linked contract</i>	[deleted]
<i>index linked liabilities</i>	[deleted]
<i>linked assets</i>	[deleted]
<i>permitted connected property</i>	[deleted]
<i>permitted derivative contract</i>	[deleted]
<i>permitted stock lending transaction</i>	[deleted]

Annex E

Amendments to the Conduct of Business sourcebook (COB)

Insert the following new section after COB 6.13 (Process for reattribution of inherited estates). The inserted text is not shown underlined.

6.14 Permitted Links

Application

- 6.14.1 R The *rules* in this section apply on an ongoing basis to *linked long-term* contracts that are effected by:
- (1) *insurers* other than *EEA insurers*; and
 - (2) *EEA insurers* in the United Kingdom.
- 6.14.2 R The rules in this section do not apply to:
- (1) contracts that were effected before 1 July 1994, and under which *linked benefits* were permitted to be determined before that date;
 - (2) contracts effected by an *insurer* that are *linked long-term* contracts only because the *policyholder* is eligible to participate in any *established surplus*;
 - (3) contracts effected by an *EEA insurer* that are *linked long-term* contracts only because the *policyholder* is eligible to participate in an excess of assets representing the whole or a particular part of the *long-term insurance fund* over the liabilities, or a particular part of the liabilities, of the *insurer* as determined by the law of the *EEA state* in which the head office of the *insurer* is situated;
 - (4) contracts to manage the investments of pension funds that are not combined with *contracts of insurance* covering either conservation of capital or payment of a minimum interest, provided that benefits under those contracts must not be determined wholly or partly by reference to the value of, or income from, or fluctuations in the value of, *derivative* contracts other than *permitted derivatives contracts*;
 - (5) contracts effected before 30 June 1995, to the extent that they provide for benefits to be determined by reference to a *collective investment scheme* that was a *listed security* immediately before 1 July 1994; and
 - (6) contracts linked to *permitted units* that were effected before 1 February 1992, except to the extent that they relate to acts or omissions on or after that date.

Principles for firms engaged in linked long-term insurance business

- 6.14.3 R A *firm* must ensure that the values of its *permitted links* are determined fairly and accurately.
- 6.14.4 R A *firm* must ensure that its *linked assets*:
- (1) are capable of being realised in time for it to meet its obligations to *linked policyholders*; and
 - (2) are matched with its *linked liabilities* as required by the *close matching rules*.
- 6.14.5 R A *firm* must ensure that there is no reasonably foreseeable risk that the aggregate value of any of its *linked funds* will become negative.
- 6.14.6 R A *firm* must notify its *linked policyholders* of the risk profile and investment strategy for the *linked fund*:
- (1) at *inception*; and
 - (2) before making any material changes.
- 6.14.7 R A *firm* must ensure that its systems and controls and other resources are appropriate for the risks associated with its *linked assets* and *linked liabilities*.
- 6.14.8 R
- (1) A *firm* must ensure when selecting *linked assets* that there is no reasonably foreseeable risk of a conflict of interest between it and its *linked policyholders*.
 - (2) If a conflict does arise, the *firm* must take reasonable steps to ensure that the interests of the *linked policyholders* are safeguarded.
- 6.14.9 R In applying the rules in this section, a *firm* must consider the economic effect of its *permitted links* and *linked assets* ahead of their legal form.
- 6.14.10 R A *firm* must notify the *FSA* in writing as soon as it becomes aware of any failure to meet the requirements of this section.
- 6.14.11 G In considering what action to take in response to written notification of a failure to meet the requirements of this section, the *FSA* will have regard to the extent to which the relevant circumstances are exceptional and temporary and to any other reasons for the failure.

Rules for firms engaged in linked long-term insurance business

- 6.14.12 R An *insurer* must not contract to provide benefits under *linked long-term* contracts of insurance that are determined:
- (1) wholly or partly, or directly or indirectly, by reference to fluctuations

in any index other than an *approved index*;

- (2) wholly or partly by reference to the value of, or the income from, or fluctuations in the value of, property other than any of the following:
 - (a) *approved securities*;
 - (b) *listed securities*;
 - (c) *permitted unlisted securities*;
 - (d) *permitted land and property*;
 - (e) *permitted loans*;
 - (f) *permitted deposits*;
 - (g) *permitted scheme interests*;
 - (h) income from (a) to (g) above;
 - (i) cash;
 - (j) *permitted units*;
 - (k) *permitted stock lending*; and
 - (l) *permitted derivatives contracts*.

6.14.13 G Nothing in these rules prevents a *firm* making allowance in the value of any *permitted link* for any notional tax loss associated with the relevant *linked assets* for the purposes of fair pricing.

6.14.14 R A *firm* that has entered into a *reinsurance contract* in respect of its *linked long-term insurance business* must nevertheless discharge its responsibilities under its *linked long-term contracts* as if no *reinsurance contract* had been effected.

6.14.15 G In order to comply with the requirements of *COB 6.14.14R* a *firm* should:

- (1) disclose to *policyholders* the implications of any credit risk exposure they may face in relation to the solvency of the reinsurer; and
- (2) suitably monitor the way the reinsurer manages the business in order to discharge its continuing responsibilities to *policyholders*.

Schedule 2: Notification requirements

COB Sch 2.1G

Handbook reference	Matter to be notified	Contents of notification	Trigger event	Time allowed
<i>COB</i> 6.12.94R(2)
<u><i>COB</i> 6.14.10R</u>	<u>Any failure to meet requirements concerning <i>permitted links</i></u>	<u>in writing – details of any failure to meet requirements concerning <i>permitted links</i></u>	<u>failure to meet any requirements concerning <i>permitted links</i></u>	<u>as soon as reasonably practicable</u>
...				

Annex F

Amendments to the new Conduct of Business sourcebook (COBS)

Insert the following new section after COBS 20 (With-Profits). The inserted text is not shown underlined.

21 Permitted Links

21.1 Application

- 21.1.1 R The *rules* in this section apply on an ongoing basis to *linked long-term* contracts that are effected by:
- (1) *insurers* other than *EEA insurers*; and
 - (2) *EEA insurers* in the United Kingdom.
- 21.1.2 R The *rules* in this section do not apply to:
- (1) contracts that were effected before 1 July 1994, and under which *linked benefits* were permitted to be determined before that date;
 - (2) contracts effected by an *insurer* that are *linked long-term* contracts only because the *policyholder* is eligible to participate in any *established surplus*;
 - (3) contracts effected by an *EEA insurer* that are *linked long-term* contracts only because the *policyholder* is eligible to participate in an excess of assets representing the whole or a particular part of the *long-term insurance fund* over the liabilities, or a particular part of the liabilities, of the *insurer* as determined by the law of the *EEA state* in which the head office of the *insurer* is situated;
 - (4) contracts to manage the investments of pension funds that are not combined with *contracts of insurance* covering either conservation of capital or payment of a minimum interest, provided always that benefits under those contracts must not be determined wholly or partly by reference to the value of, or income from, or fluctuations in the value of, *derivative* contracts other than *permitted derivatives contracts*;
 - (5) contracts effected before 30 June 1995, to the extent that they provide for benefits to be determined by reference to a *collective investment scheme* that was a *listed security* immediately before 1 July 1994; and
 - (6) contracts linked to *permitted units* that were effected before 1 February 1992, except to the extent that they relate to acts or omissions on or after that date.

21.2 Principles for firms engaged in linked long-term insurance business

- 21.2.1 R A *firm* must ensure that the values of its *permitted links* are determined fairly and accurately.
- 21.2.2 R A *firm* must ensure that its *linked assets*:
- (1) are capable of being realised in time for it to meet its obligations to *linked policyholders*; and
 - (2) are matched with its *linked liabilities* as required by the *close matching rules*.
- 21.2.3 R A *firm* must ensure that there is no reasonably foreseeable risk that the aggregate value of any of its *linked funds* will become negative.
- 21.2.4 R A *firm* must notify its *linked policyholders* of the risk profile and investment strategy for the *linked fund*:
- (1) at *inception*, and
 - (2) before making any material changes.
- 21.2.5 R A *firm* must ensure that its systems and controls and other resources are appropriate for the risks associated with its *linked assets* and *linked liabilities*.
- 21.2.6 R
- (1) A *firm* must ensure when selecting *linked assets* that there is no reasonably foreseeable risk of a conflict of interest with its *linked policyholders*.
 - (2) If a conflict does arise, the *firm* must take reasonable steps to ensure that the interests of the *linked policyholders* are safeguarded.
- 21.2.7 R In applying the rules in this section, a *firm* must consider the economic effect of its *permitted links* and *linked assets* ahead of their legal form.
- 21.2.8 R A *firm* must notify the *FSA* in writing as soon as it becomes aware of any failure to meet the requirements of this section.
- 21.2.9 G In considering what action to take in response to written notification of a failure to meet the requirements of this section, the *FSA* will have regard to the extent to which the relevant circumstances are exceptional and temporary and to any other reasons for the failure.

21.3 Rules for firms engaged in linked long-term insurance business

- 21.3.1 R An *insurer* must not contract to provide benefits under *linked long-term*

contracts of insurance that are determined:

- (1) wholly or partly, or directly or indirectly, by reference to fluctuations in any index other than an *approved index*;
- (2) wholly or partly by reference to the value of, or the income from, or fluctuations in the value of, property other than any of the following:
 - (a) *approved securities*;
 - (b) *listed securities*;
 - (c) *permitted unlisted securities*;
 - (d) *permitted land and property*;
 - (e) *permitted loans*;
 - (f) *permitted deposits*;
 - (g) *permitted scheme interests*;
 - (h) income from (a) to (g) above;
 - (i) cash;
 - (j) *permitted units*;
 - (k) *permitted stock lending*; and
 - (l) *permitted derivatives contracts*.

- 21.3.2 G Nothing in these rules prevents a *firm* making allowance in the value of any *permitted link* for any notional tax loss associated with the relevant *linked assets* for the purposes of fair pricing.
- 21.3.3 R A *firm* that has entered into a *reinsurance contract* in respect of its *linked long-term insurance business* must nevertheless discharge its responsibilities under its *linked long-term insurance contracts* as if no *reinsurance contract* had been effected.
- 21.3.4 G In order to comply with the requirements of *COBS 21.3.3R* a *firm* should:
- (1) disclose to *policyholders* the implications of any credit risk exposure they may face in relation to the solvency of the reinsurer; and
 - (2) suitably monitor the way the reinsurer manages the business in order to discharge its continuing responsibilities to *policyholders*.

Annex G

Amendments to the Supervision manual (SUP)

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

SUP 13A Annex 1G Application of the Handbook to Incoming EEA firms

(1) Module of Handbook	(2) Potential application to an incoming EEA firm with respect to activities carried on from an establishment of the firm (or its appointed representative) in the United Kingdom	(3) Potential application to an incoming EEA firm with respect to activities carried on other than from an establishment of the firm (or its appointed representative) in the United Kingdom
...		
<i>IPRU(INS)</i>	Only <i>IPRU(INS)</i> 3.6 and 3.7 (Linked long term contracts) apply, and only if the firm is an insurer (<i>IPRU(INS)</i> 1.1(b)). <u>[deleted]</u>	As column (2). <u>[deleted]</u>
...